



**Auditor of State
Betty Montgomery**

**VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Valley Local School District
Scioto County
P.O. Box 888
Lucasville, Ohio 45648

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Valley Local School District, Scioto County, Ohio (the School District), as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general purpose 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 opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Valley Local School District, Scioto County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type 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 March 30, 2004 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 30, 2004

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VALLEY LOCAL SCHOOL DISTRICT
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2003

GOVERNMENTAL FUND TYPES

| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> |
|--|--------------------|----------------------------|-------------------------|-----------------------------|
| <u>Assets and Other Debits:</u> | | | | |
| <u>Assets:</u> | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$2,894,565 | \$636,185 | \$435,260 | \$1,721,974 |
| Cash and Cash Equivalents with Escrow Agent | 0 | 0 | 0 | 74,682 |
| Investments in Segregated Accounts | 19,117 | 0 | 0 | 0 |
| Receivables: | | | | |
| Taxes | 1,109,107 | 22,919 | 276,454 | 0 |
| Accounts | 11,425 | 0 | 0 | 0 |
| Intergovernmental | 0 | 103,032 | 0 | 1,274,689 |
| Materials and Supplies Inventory | 65,119 | 0 | 0 | 0 |
| Inventory Held for Resale | 0 | 0 | 0 | 0 |
| Prepaid Items | 37,088 | 0 | 0 | 0 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 83,203 | 0 | 0 | 0 |
| Investments with Escrow Agent | 0 | 0 | 74,410 | 0 |
| Fixed Assets (Net of Accumulated Depreciation) | 0 | 0 | 0 | 0 |
| <u>Other Debits:</u> | | | | |
| Amount Available in Debt Service Fund for Retirement of General Obligation Bonds | 0 | 0 | 0 | 0 |
| Amount to be Provided from General Government Resources | 0 | 0 | 0 | 0 |
| Total Assets and Other Debits | \$4,219,624 | \$762,136 | \$786,124 | \$3,071,345 |

| <i>PROPRIETARY FUND TYPE</i> | <i>FIDUCIARY FUND TYPE</i> | <i>ACCOUNT GROUPS</i> | | Totals (Memorandum Only) |
|----------------------------------|--------------------------------|----------------------------|-------------------------------------|--------------------------------|
| | | General Fixed Assets | General Long-Term Obligations | |
| Enterprise | Agency | | | |
| \$77,185 | \$22,700 | \$0 | \$0 | \$5,787,869 |
| 0 | 0 | 0 | 0 | 74,682 |
| 0 | 0 | 0 | 0 | 19,117 |
| 0 | 0 | 0 | 0 | 1,408,480 |
| 0 | 0 | 0 | 0 | 11,425 |
| 26,382 | 0 | 0 | 0 | 1,404,103 |
| 758 | 0 | 0 | 0 | 65,877 |
| 5,561 | 0 | 0 | 0 | 5,561 |
| 0 | 0 | 0 | 0 | 37,088 |
| 0 | 0 | 0 | 0 | 83,203 |
| 0 | 0 | 0 | 0 | 74,410 |
| 38,222 | 0 | 14,865,493 | 0 | 14,903,715 |
| 0 | 0 | 0 | 525,906 | 525,906 |
| 0 | 0 | 0 | 2,798,999 | 2,798,999 |
| <u>\$148,108</u> | <u>\$22,700</u> | <u>\$14,865,493</u> | <u>\$3,324,905</u> | <u>\$27,200,435</u> |

(Continued)

VALLEY LOCAL SCHOOL DISTRICT
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2003
 (Continued)

| | GOVERNMENTAL FUND TYPES | | | |
|---|--------------------------------|--------------------|------------------|---------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| <u>Liabilities.</u> | | | | |
| <u>Fund Equity and Other Credits:</u> | | | | |
| <u>Liabilities:</u> | | | | |
| Accounts Payable | \$154,180 | \$1,289 | \$0 | \$18,724 |
| Contracts Payable | 5,117 | 0 | 0 | 407,482 |
| Accrued Wages and Benefits | 767,720 | 72,111 | 0 | 0 |
| Compensated Absences Payable | 10,274 | 0 | 0 | 0 |
| Retainage Payable | 0 | 0 | 0 | 37,012 |
| Intergovernmental Payable | 111,747 | 10,542 | 0 | 0 |
| Deferred Revenue | 1,050,025 | 110,341 | 260,218 | 1,238,875 |
| Undistributed Monies | 809 | 0 | 0 | 0 |
| Capital Leases Payable | 0 | 0 | 0 | 0 |
| General Obligation Bonds Payable | 0 | 0 | 0 | 0 |
| Total Liabilities | 2,099,872 | 194,283 | 260,218 | 1,702,093 |
| <u>Fund Equity and Other Credits:</u> | | | | |
| Investment in General Fixed Assets | 0 | 0 | 0 | 0 |
| Contributed Capital | 0 | 0 | 0 | 0 |
| Retained Earnings: | | | | |
| Unreserved | 0 | 0 | 0 | 0 |
| Fund Balance: | | | | |
| Reserved for Encumbrances | 601,439 | 718 | 0 | 1,010,805 |
| Reserved for Property Taxes | 59,082 | 1,298 | 16,236 | 0 |
| Reserved for Future Debt Service | 0 | 0 | 74,410 | 0 |
| Reserved for Budget Stabilization | 36,052 | 0 | 0 | 0 |
| Reserved for Bus Purchases | 47,151 | 0 | 0 | 0 |
| Reserved for Unclaimed Monies | 809 | 0 | 0 | 0 |
| Unreserved: | | | | |
| Designated for Budget Stabilization | 56,517 | 0 | 0 | 0 |
| Undesignated | 1,318,702 | 565,837 | 435,260 | 358,447 |
| Total Fund Equity and Other Credits | 2,119,752 | 567,853 | 525,906 | 1,369,252 |
| Total Liabilities, Fund Equity and Other Credits | \$4,219,624 | \$762,136 | \$786,124 | \$3,071,345 |

See accompanying notes to the general purpose financial statements

| <i>PROPRIETARY FUND TYPE</i> | <i>FIDUCIARY FUND TYPE</i> | <i>ACCOUNT GROUPS</i> | | Totals (Memorandum Only) |
|----------------------------------|--------------------------------|----------------------------|-------------------------------------|--------------------------------|
| | | General Fixed Assets | General Long-Term Obligations | |
| Enterprise | Agency | | | |
| \$16,574 | \$0 | \$0 | \$0 | \$190,767 |
| 0 | 0 | 0 | 0 | 412,599 |
| 20,593 | 0 | 0 | 0 | 860,424 |
| 18,750 | 0 | 0 | 727,744 | 756,768 |
| 0 | 0 | 0 | 0 | 37,012 |
| 9,074 | 0 | 0 | 64,216 | 195,579 |
| 0 | 0 | 0 | 0 | 2,659,459 |
| 0 | 22,700 | 0 | 0 | 23,509 |
| 0 | 0 | 0 | 1,000,000 | 1,000,000 |
| 0 | 0 | 0 | 1,532,945 | 1,532,945 |
| 64,991 | 22,700 | 0 | 3,324,905 | 7,669,062 |
| 0 | 0 | 14,865,493 | 0 | 14,865,493 |
| 73,141 | 0 | 0 | 0 | 73,141 |
| 9,976 | 0 | 0 | 0 | 9,976 |
| 0 | 0 | 0 | 0 | 1,612,962 |
| 0 | 0 | 0 | 0 | 76,616 |
| 0 | 0 | 0 | 0 | 74,410 |
| 0 | 0 | 0 | 0 | 36,052 |
| 0 | 0 | 0 | 0 | 47,151 |
| 0 | 0 | 0 | 0 | 809 |
| 0 | 0 | 0 | 0 | 56,517 |
| 0 | 0 | 0 | 0 | 2,678,246 |
| 83,117 | 0 | 14,865,493 | 0 | 19,531,373 |
| \$148,108 | \$22,700 | \$14,865,493 | \$3,324,905 | \$27,200,435 |

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VALLEY LOCAL SCHOOL DISTRICT
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balances
 All Governmental Fund Types
 For the Fiscal Year Ended June 30, 2003

| | GOVERNMENTAL FUND TYPES | | | | Totals (Memorandum Only) |
|---|--------------------------------|--------------------|------------------|---------------------|--------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | |
| <u>Revenues:</u> | | | | | |
| Property Taxes | \$962,527 | \$20,451 | \$247,937 | \$0 | \$1,230,915 |
| Intergovernmental | 6,503,790 | 1,086,168 | 34,570 | 1,241,829 | 8,866,357 |
| Interest | 54,254 | 2,996 | 0 | 17,704 | 74,954 |
| Tuition and Fees | 876,439 | 0 | 0 | 0 | 876,439 |
| Rent | 1,950 | 0 | 0 | 0 | 1,950 |
| Extracurricular Activities | 151,831 | 0 | 0 | 0 | 151,831 |
| Gifts and Donations | 7,872 | 0 | 0 | 0 | 7,872 |
| Customer Services | 109,425 | 0 | 0 | 0 | 109,425 |
| Miscellaneous | 75,662 | 0 | 2,981 | 2,400 | 81,043 |
| Total Revenues | 8,743,750 | 1,109,615 | 285,488 | 1,261,933 | 11,400,786 |
| <u>Expenditures:</u> | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 3,600,805 | 501,713 | 0 | 12,563 | 4,115,081 |
| Special | 694,682 | 381,609 | 0 | 0 | 1,076,291 |
| Vocational | 303,890 | 0 | 0 | 0 | 303,890 |
| Support Services: | | | | | |
| Pupils | 353,578 | 25,673 | 0 | 0 | 379,251 |
| Instructional Staff | 366,895 | 113,629 | 0 | 0 | 480,524 |
| Board of Education | 50,407 | 0 | 0 | 0 | 50,407 |
| Administration | 592,948 | 110,469 | 0 | 0 | 703,417 |
| Fiscal | 182,591 | 533 | 6,447 | 0 | 189,571 |
| Operation and Maintenance of Plant | 873,589 | 2,482 | 0 | 0 | 876,071 |
| Pupil Transportation | 547,148 | 0 | 0 | 0 | 547,148 |
| Central | 321,208 | 18,757 | 0 | 185,249 | 525,214 |
| Extracurricular Activities | 218,799 | 0 | 0 | 0 | 218,799 |
| Capital Outlay | 255,231 | 0 | 0 | 1,021,295 | 1,276,526 |
| Intergovernmental | 0 | 39,500 | 0 | 0 | 39,500 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 0 | 155,000 | 0 | 155,000 |
| Interest and Fiscal Charges | 0 | 0 | 69,867 | 0 | 69,867 |
| Total Expenditures | 8,361,771 | 1,194,365 | 231,314 | 1,219,107 | 11,006,557 |
| Excess of Revenues Over (Under) Expenditures | 381,979 | (84,750) | 54,174 | 42,826 | 394,229 |
| <u>Other Financing Sources (Uses):</u> | | | | | |
| Proceeds From Sale of Fixed Assets | 1,500 | 0 | 0 | 0 | 1,500 |
| Operating Transfers In | 0 | 271,038 | 0 | 0 | 271,038 |
| Operating Transfers Out | (269,596) | (1,442) | 0 | 0 | (271,038) |
| Total Other Financing Sources (Uses) | (268,096) | 269,596 | 0 | 0 | 1,500 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | 113,883 | 184,846 | 54,174 | 42,826 | 395,729 |
| Fund Balances at Beginning of Year - Restated - See Note 22 | 2,005,869 | 383,007 | 471,732 | 1,326,426 | 4,187,034 |
| Fund Balances at End of Year | \$2,119,752 | \$567,853 | \$525,906 | \$1,369,252 | \$4,582,763 |

See accompanying notes to the general purpose financial statements

VALLEY LOCAL SCHOOL DISTRICT
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 All Governmental Fund Types
 For the Fiscal Year Ended June 30, 2003

| | GENERAL FUND | | | SPECIAL REVENUE FUNDS | | |
|---|---------------------|--------------------|--|------------------------------|------------------|--|
| | Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| <u>Revenues:</u> | | | | | | |
| Property Taxes | \$1,016,663 | \$1,016,663 | \$0 | \$21,647 | \$21,647 | \$0 |
| Intergovernmental | 6,503,790 | 6,503,790 | 0 | 1,032,356 | 1,032,356 | 0 |
| Interest | 54,254 | 54,254 | 0 | 2,996 | 2,996 | 0 |
| Tuition and Fees | 877,548 | 877,548 | 0 | 0 | 0 | 0 |
| Rent | 1,650 | 1,650 | 0 | 0 | 0 | 0 |
| Extracurricular Activities | 151,831 | 151,831 | 0 | 0 | 0 | 0 |
| Gifts and Donations | 7,695 | 7,695 | 0 | 0 | 0 | 0 |
| Customer Services | 123,323 | 123,323 | 0 | 0 | 0 | 0 |
| Miscellaneous | 58,527 | 58,527 | 0 | 0 | 0 | 0 |
| <i>Total Revenues</i> | <u>8,795,281</u> | <u>8,795,281</u> | <u>0</u> | <u>1,056,999</u> | <u>1,056,999</u> | <u>0</u> |
| <u>Expenditures:</u> | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Regular | 3,631,901 | 3,633,428 | (1,527) | 507,839 | 507,839 | 0 |
| Special | 708,673 | 708,603 | 70 | 369,717 | 369,830 | (113) |
| Vocational | 305,108 | 305,105 | 3 | 0 | 0 | 0 |
| Other | 32,819 | 32,819 | 0 | 0 | 0 | 0 |
| Support Services: | | | | | | |
| Pupils | 355,344 | 355,633 | (289) | 26,419 | 26,419 | 0 |
| Instructional Staff | 381,595 | 381,163 | 432 | 117,388 | 117,388 | 0 |
| Board of Education | 66,962 | 66,962 | 0 | 0 | 0 | 0 |
| Administration | 602,215 | 602,281 | (66) | 114,765 | 114,765 | 0 |
| Fiscal | 185,069 | 185,069 | 0 | 533 | 533 | 0 |
| Operation and Maintenance of Plant | 912,114 | 909,836 | 2,278 | 2,482 | 2,482 | 0 |
| Pupil Transportation | 559,738 | 556,049 | 3,689 | 0 | 0 | 0 |
| Central | 348,751 | 348,720 | 31 | 19,115 | 19,115 | 0 |
| Extracurricular Activities | 235,947 | 235,947 | 0 | 0 | 0 | 0 |
| Capital Outlay | 724,397 | 724,397 | 0 | 0 | 0 | 0 |
| Debt Service: | | | | | | |
| Principal Retirement | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest and Fiscal Charges | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Total Expenditures</i> | <u>9,050,633</u> | <u>9,046,012</u> | <u>4,621</u> | <u>1,158,258</u> | <u>1,158,371</u> | <u>(113)</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(255,352)</u> | <u>(250,731)</u> | <u>4,621</u> | <u>(101,259)</u> | <u>(101,372)</u> | <u>(113)</u> |
| <u>Other Financing Sources (Uses):</u> | | | | | | |
| Proceeds from Sale of Fixed Assets | 1,500 | 1,500 | 0 | 0 | 0 | 0 |
| Operating Transfers In | 0 | 0 | 0 | 271,038 | 271,038 | 0 |
| Operating Transfers Out | (269,596) | (269,596) | 0 | (1,442) | (1,442) | 0 |
| Refund of Prior Year Expenditures | 17,135 | 17,135 | 0 | 0 | 0 | 0 |
| Refund of Prior Year Receipts | 0 | 0 | 0 | (175) | (175) | 0 |
| Sinking Fund Payments | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(250,961)</u> | <u>(250,961)</u> | <u>0</u> | <u>269,421</u> | <u>269,421</u> | <u>0</u> |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | <u>(506,313)</u> | <u>(501,692)</u> | <u>4,621</u> | <u>168,162</u> | <u>168,049</u> | <u>(113)</u> |
| Fund Balances at Beginning of Year | 2,356,834 | 2,356,834 | 0 | 462,960 | 462,960 | 0 |
| Prior Year Encumbrances Appropriated | 363,040 | 363,040 | 0 | 3,056 | 3,056 | 0 |
| Fund Balances at End of Year | <u>\$2,213,561</u> | <u>\$2,218,182</u> | <u>\$4,621</u> | <u>\$634,178</u> | <u>\$634,065</u> | <u>(\$113)</u> |

See accompanying notes to the general purpose financial statements

| DEBT SERVICE FUND | | | CAPITAL PROJECTS FUNDS | | | TOTALS (MEMORANDUM ONLY) | | |
|--------------------------|-----------|--|-------------------------------|-----------|--|-------------------------------------|-------------|--|
| Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| \$262,820 | \$262,820 | \$0 | \$0 | \$0 | \$0 | \$1,301,130 | \$1,301,130 | \$0 |
| 34,570 | 34,570 | 0 | 1,206,015 | 1,206,015 | 0 | 8,776,731 | 8,776,731 | 0 |
| 0 | 0 | 0 | 13,593 | 13,593 | 0 | 70,843 | 70,843 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 877,548 | 877,548 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 1,650 | 1,650 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 151,831 | 151,831 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 7,695 | 7,695 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 123,323 | 123,323 | 0 |
| 0 | 0 | 0 | 2,400 | 2,400 | 0 | 60,927 | 60,927 | 0 |
| 297,390 | 297,390 | 0 | 1,222,008 | 1,222,008 | 0 | 11,371,678 | 11,371,678 | 0 |
| 0 | 0 | 0 | 12,563 | 12,563 | 0 | 4,152,303 | 4,153,830 | (1,527) |
| 0 | 0 | 0 | 0 | 0 | 0 | 1,078,390 | 1,078,433 | (43) |
| 0 | 0 | 0 | 0 | 0 | 0 | 305,108 | 305,105 | 3 |
| 0 | 0 | 0 | 0 | 0 | 0 | 32,819 | 32,819 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 381,763 | 382,052 | (289) |
| 0 | 0 | 0 | 0 | 0 | 0 | 498,983 | 498,551 | 432 |
| 0 | 0 | 0 | 0 | 0 | 0 | 66,962 | 66,962 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 716,980 | 717,046 | (66) |
| 6,447 | 6,447 | 0 | 0 | 0 | 0 | 192,049 | 192,049 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 914,596 | 912,318 | 2,278 |
| 0 | 0 | 0 | 0 | 0 | 0 | 559,738 | 556,049 | 3,689 |
| 0 | 0 | 0 | 185,880 | 185,880 | 0 | 553,746 | 553,715 | 31 |
| 0 | 0 | 0 | 0 | 0 | 0 | 235,947 | 235,947 | 0 |
| 0 | 0 | 0 | 1,736,092 | 1,736,092 | 0 | 2,460,489 | 2,460,489 | 0 |
| 155,000 | 155,000 | 0 | 0 | 0 | 0 | 155,000 | 155,000 | 0 |
| 69,865 | 69,867 | (2) | 0 | 0 | 0 | 69,865 | 69,867 | (2) |
| 231,312 | 231,314 | (2) | 1,934,535 | 1,934,535 | 0 | 12,374,738 | 12,370,232 | 4,506 |
| 66,078 | 66,076 | (2) | (712,527) | (712,527) | 0 | (1,003,060) | (998,554) | 4,506 |
| 0 | 0 | 0 | 0 | 0 | 0 | 1,500 | 1,500 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 271,038 | 271,038 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | (271,038) | (271,038) | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 17,135 | 17,135 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | (175) | (175) | 0 |
| (71,429) | (71,429) | 0 | 0 | 0 | 0 | (71,429) | (71,429) | 0 |
| (71,429) | (71,429) | 0 | 0 | 0 | 0 | (52,969) | (52,969) | 0 |
| (5,351) | (5,353) | (2) | (712,527) | (712,527) | 0 | (1,056,029) | (1,051,523) | 4,506 |
| 440,613 | 440,613 | 0 | 1,186,073 | 1,186,073 | 0 | 4,446,480 | 4,446,480 | 0 |
| 0 | 0 | 0 | 79,073 | 79,073 | 0 | 445,169 | 445,169 | 0 |
| \$435,262 | \$435,260 | (\$2) | \$552,619 | \$552,619 | \$0 | \$3,835,620 | \$3,840,126 | \$4,506 |

VALLEY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenses
and Changes in Fund Equity
Enterprise Fund
For the Fiscal Year Ended June 30, 2003

| | <i>Food Service</i> |
|--|---------------------|
| <u>Operating Revenues:</u> | |
| Sales | \$119,838 |
| <u>Operating Expenses:</u> | |
| Salaries | 121,058 |
| Fringe Benefits | 57,835 |
| Purchased Services | 5,662 |
| Materials and Supplies | 17,943 |
| Cost of Sales | 173,737 |
| Depreciation | 6,696 |
| Other | 708 |
| <i>Total Operating Expenses</i> | 383,639 |
| Operating Loss | (263,801) |
| <u>Non-Operating Revenues:</u> | |
| Federal and State Subsidies | 209,885 |
| Federal Donated Commodities | 32,191 |
| Interest | 920 |
| <i>Total Non-Operating Revenues</i> | 242,996 |
| Net Loss | (20,805) |
| Retained Earnings at Beginning of Year | 30,781 |
| Retained Earnings at End of Year | 9,976 |
| Contributed Capital at Beginning and End of Year | 73,141 |
| Fund Equity at End of Year | \$83,117 |

See accompanying notes to the general purpose financial statements

VALLEY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenses and
Changes in Fund Equity - Budget and Actual (Budget Basis)
Enterprise Fund
For the Fiscal Year Ended June 30, 2003

| | FOOD SERVICE | | |
|--------------------------------------|---------------------|-----------------|--|
| | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| <u>Revenues:</u> | | | |
| Sales | \$119,838 | \$119,838 | \$0 |
| Interest | 920 | 920 | 0 |
| Federal and State Subsidies | 202,849 | 202,849 | 0 |
| <i>Total Revenues</i> | <u>323,607</u> | <u>323,607</u> | <u>0</u> |
| <u>Expenses:</u> | | | |
| Salaries | 122,282 | 122,282 | 0 |
| Fringe Benefits | 62,766 | 62,766 | 0 |
| Purchased Services | 6,108 | 6,132 | (24) |
| Materials and Supplies | 172,555 | 164,864 | 7,691 |
| Capital Outlay | 218 | 218 | 0 |
| Other | 708 | 708 | 0 |
| <i>Total Expenses</i> | <u>364,637</u> | <u>356,970</u> | <u>7,667</u> |
| Excess of Revenues Under Expenses | (41,030) | (33,363) | 7,667 |
| Fund Equity at Beginning of Year | 90,277 | 90,277 | 0 |
| Prior Year Encumbrances Appropriated | 475 | 475 | 0 |
| Fund Equity at End of Year | <u>\$49,722</u> | <u>\$57,389</u> | <u>\$7,667</u> |

See accompanying notes to the general purpose financial statements

VALLEY LOCAL SCHOOL DISTRICT
Statement of Cash Flows
Enterprise Fund
For the Fiscal Year Ended June 30, 2003

| <u>Increase (Decrease) in Cash and Cash Equivalents:</u> | <u>Food Service</u> |
|---|----------------------------|
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Received from Sales | \$119,838 |
| Cash Payments to Suppliers for Goods and Services | (151,418) |
| Cash Payments to Employees for Services | (122,282) |
| Cash Payments for Employee Benefits | (62,766) |
| Cash Payments for Other Operating Expenses | <u>(708)</u> |
| Net Cash Used for Operating Activities | (217,336) |
| <u>Cash Flows from Noncapital Financing Activities:</u> | |
| Federal and State Subsidies | 202,849 |
| <u>Cash Flows from Investing Activities:</u> | |
| Interest | <u>920</u> |
| Net Decrease in Cash and Cash Equivalents | (13,567) |
| Cash and Cash Equivalents at Beginning of Year | <u>90,752</u> |
| Cash and Cash Equivalents at End of Year | <u><u>\$77,185</u></u> |
| <u>Reconciliation of Operating Loss to Net</u> | |
| <u>Cash Used for Operating Activities:</u> | |
| Operating Loss | <u>(\$263,801)</u> |
| <u>Adjustments to Reconcile Operating Loss</u> | |
| <u>to Net Cash Used for Operating Activities:</u> | |
| Depreciation | 6,696 |
| Donated Commodities Received During Year | 32,191 |
| Changes in Assets and Liabilities: | |
| Increase in Inventory Held for Resale | (2,497) |
| Increase in Materials and Supplies Inventory | (344) |
| Increase in Accounts Payable | 16,574 |
| Decrease in Accrued Wages and Benefits Payable | (2,950) |
| Decrease in Compensated Absences Payable | (259) |
| Decrease in Intergovernmental Payable | <u>(2,946)</u> |
| Total Adjustments | <u>46,465</u> |
| Net Cash Used for Operating Activities | <u><u>(\$217,336)</u></u> |

Non-Cash Transactions:

During fiscal year 2003, the enterprise fund received \$32,191 in donated commodities.

See accompanying notes to the general purpose financial statements

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1888 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 48 square miles. It is located in Scioto County, and includes all of Valley Township and portions of Jefferson, Rush, Madison, and Morgan Townships. It is staffed by 51 non-certificated employees, 93 certificated full-time teaching personnel and 6 administrative employees who provide services to 1,230 students and other community members. The School District currently operates three instructional buildings and one garage.

Reporting Entity:

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY
(Continued)

The School District participates in four organizations, two of which are defined as jointly governed organizations, one as a public entity shared risk pool, and one as an insurance purchasing pool. These organizations are the South Central Ohio Computer Association (SCOCA), the Pilasco-Ross Special Education Regional Research Center, the Scioto County Schools Council, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16, 17, and 18 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Valley Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued 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 District's accounting policies are described below.

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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

Special Revenue Funds – The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Type:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's only proprietary fund type:

Enterprise Fund - The enterprise fund is used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary fund.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary fund.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The modified accrual basis of accounting is followed for the governmental and agency funds. The full accrual basis of accounting is followed for the proprietary fund.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, customer services and grants.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the fiscal year with the legal restriction that appropriations by fund cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer has the authority to further allocate appropriations to functions and objects within each fund.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Scioto County Budget Commission for rate determination.

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. Before year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year which was in effect at the time the final appropriations were passed.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board of Education may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The total of expenditures and encumbrances may not exceed the appropriation totals at the legal level of control.

The Board of Education may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, two supplemental appropriations were legally enacted.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts passed during the year, including all supplemental appropriations. Formal budgetary integration is employed by the Board of Education as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for the proprietary fund.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including the enterprise fund, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. The School District holds a donation of common stock, which is shown on the combined balance sheet as "Investments in Segregated Accounts". During fiscal year 2003, the School District held money to be used for future renovations to buildings of the School District. The monies are presented as "Cash and Cash Equivalents with Escrow Agents" on the balance sheet (see Note 13).

During fiscal year 2003, the School District's investments were limited to the State Treasury Assets Reserve of Ohio (STAROhio), repurchase agreements, commercial paper, and donated common stock. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts such as repurchase agreements are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$54,254, which includes \$22,684 from other School District funds.

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

E. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as a expenditure in the governmental fund types when consumed. Inventories of the enterprise fund consist of supplies, donated food, and purchased food held for resale, and are expensed when used.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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 expenditure is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not have any infrastructure.

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 capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets, as applicable.

Assets in the general fixed assets account group are depreciated using the straight-line method over a useful life of fifty years for buildings, five to seven years for improvements, five years for textbooks, and three to six years for vehicles. Depreciation of furniture and equipment in the enterprise funds and the general fixed asset account group is computed using the straight-line method over an estimated useful life of ten to twenty years.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District 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 termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Obligations Account Group. In the enterprise fund, the entire amount of compensated absences is reported as a fund liability.

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have used current available financial resources. Bonds and capital leases are reported as a liability of the General Long-Term Obligations Account Group until due.

Long-term debt and other obligations financed by the enterprise fund are reported as liabilities in the enterprise fund.

J. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

K. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent unexpended revenues restricted for the purchase of school buses and amounts required by statute to be set-aside by the School District for budget stabilization. See Note 19 for additional information regarding set-asides.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance Reserves/Designations

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Fund balance designations may be established to indicate tentative planned expenditures of financial resources. The designation reflects the School District's intentions and is subject to change. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, budget stabilization, bus purchases, and unclaimed monies. A designation of fund balance has been made for amounts set aside for budget stabilization that exceeds the amount required by statute.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

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.

N. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. After fiscal year 2000, capital contributions from other governments and private sources are recorded as revenues and reported as retained earnings. Capital contributions from other funds are still reported as additions to contributed capital.

Because the School District did not prepare financial statements in accordance with generally accepted accounting principles prior to fiscal year 1996, the exact amount of contributed capital cannot be determined. Consequently, only those amounts that have been specifically identified have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to proprietary funds have been classified as retained earnings.

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2003, the Disadvantaged Pupils Impact Aid, Title VI-B IDEA, Title I, and Federal Miscellaneous Special Revenue Funds had deficit fund balances of \$1,518, \$19,036, \$40,635 and \$3,784, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The Title I Special Revenue Fund had expenditures in excess of appropriations for the fiscal year ended June 30, 2003, as follows:

| <u>Fund Type/Fund</u> | <u>Appropriations</u> | <u>Expenditures</u> | <u>Excess</u> |
|-----------------------|-----------------------|---------------------|---------------|
| Special Revenue Fund: | | | |
| Title I | \$327,486 | \$327,599 | (\$113) |

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - Enterprise Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

5. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
6. Unrecorded cash represents bond proceeds amounts held with an escrow agent. The proceeds have been recognized as revenue on a GAAP basis.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

| | General | Special Revenue | Debt Service | Capital Projects |
|-----------------------|-------------|--------------------|-----------------|---------------------|
| GAAP Basis | \$113,883 | \$184,846 | \$54,174 | \$42,826 |
| Adjustments: | | | | |
| Revenue Accruals | 68,666 | (52,616) | 11,902 | 34,757 |
| Expenditure Accruals | 75,345 | 37,939 | 0 | 453,927 |
| Encumbrances | (759,586) | (2,120) | 0 | (1,169,355) |
| Unrecorded Cash | 0 | 0 | 0 | (74,682) |
| Sinking Fund Payments | 0 | 0 | (71,429) | 0 |
| Budget Basis | (\$501,692) | \$168,049 | (\$5,353) | (\$712,527) |

Net Loss/Excess of Revenues Under Expenses
Enterprise Fund

| | |
|---------------------------|------------|
| GAAP Basis | (\$20,805) |
| Adjustments: | |
| Revenue Accruals | (7,036) |
| Inventory Held for Resale | 2,497 |
| Expense Accruals | 18,473 |
| Depreciation Expense | (6,696) |
| Encumbrances | (19,796) |
| Budget Basis | (\$33,363) |

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$71,343 and the bank balance was \$145,636. Of the bank balance, the full amount was covered by federal depository insurance.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in STAROhio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

| | Category 2 | Category 3 | Unclassified | Carrying/Fair Value |
|---|------------|------------|--------------|------------------------|
| STAROhio | \$0 | \$0 | \$5,854,506 | \$5,854,506 |
| Repurchase Agreement | 0 | 19,905 | 0 | 19,905 |
| Donated Common Stock | 19,117 | 0 | 0 | 19,117 |
| American Express Credit Commercial Paper | 0 | 74,410 | 0 | 74,410 |
| Total Investments | \$19,117 | \$94,315 | \$5,854,506 | \$5,967,938 |

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

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per *GASB Statement No. 3* is as follows:

| | Cash and Cash Equivalents/ Deposits | Investments |
|----------------------|--|-------------|
| GASB Statement No. 9 | \$5,945,754 | \$93,527 |
| Investments: | | |
| STAROhio | (5,854,506) | 5,854,506 |
| Repurchase Agreement | (19,905) | 19,905 |
| GASB Statement No. 3 | \$71,343 | \$5,967,938 |

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - PROPERTY TAXES (Continued)

The School District receives property taxes from Scioto County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$59,082 in the General Fund, \$1,298 in the Classroom Facilities Maintenance Special Revenue Fund, and \$16,236 in the Debt Service Fund. The amount available as an advance at June 30, 2002 was \$113,218 in the General Fund, \$2,494 in the Classroom Facilities Maintenance Special Revenue Fund, and \$31,119 in the Debt Service Fund.

The assessed values upon which fiscal year 2003 taxes were collected are:

| | <u>2002 Second- Half Collections</u> | | <u>2003 First- Half Collections</u> | |
|---|--|----------------|---|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$42,916,850 | 80.91% | \$44,045,580 | 82.41% |
| Public Utility | 5,498,150 | 10.37% | 57,190 | 0.10% |
| Tangible Personal Property | 4,628,540 | 8.72% | 9,346,950 | 17.49% |
| Total Assessed Value | <u>\$53,043,540</u> | <u>100.00%</u> | <u>\$53,449,720</u> | <u>100.00%</u> |

| | | |
|---|---------|---------|
| Tax rate per \$1,000 of assessed valuation | \$31.21 | \$31.21 |
|---|---------|---------|

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 7 – RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

| Fund Type/Fund | Amounts |
|-------------------------------------|-------------|
| Special Revenue Funds: | |
| Title I | \$64,001 |
| Title II-A | 12,231 |
| Title IV | 3,174 |
| Title V | 2,081 |
| Title VI-B IDEA | 21,545 |
| Total Special Revenue Funds: | 103,032 |
| Capital Projects Fund: | |
| Classroom Facilities | 1,274,689 |
| Enterprise Fund: | |
| Federal and State Subsidies | 26,382 |
| Total Intergovernmental Receivables | \$1,404,103 |

The School District was awarded a grant in the amount of \$1,655,904 on August 23, 2000 from the Ohio School Facilities Commission for the construction of new facilities.

NOTE 8 - FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 2003, follows:

| | |
|------------------------------|-----------|
| Furniture and Equipment | \$133,130 |
| Less Accumulate Depreciation | (94,908) |
| Net Fixed Assets | \$38,222 |

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8 - FIXED ASSETS (Continued)

A summary of the changes in general fixed assets during fiscal year 2003 follows:

| <u>Asset Category</u> | <u>Balance at 6/30/02</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance at 6/30/03</u> |
|----------------------------|-------------------------------|--------------------|-------------------|-------------------------------|
| Land and Improvements | \$792,782 | \$198,316 | \$0 | \$991,098 |
| Buildings and Improvements | 17,792,204 | 7,410 | 0 | 17,799,614 |
| Furniture and Equipment | 2,030,304 | 239,982 | 0 | 2,270,286 |
| Textbooks | 657,294 | 0 | 0 | 657,294 |
| Vehicles | 654,503 | 11,000 | 0 | 665,503 |
| Construction in Progress | 26,271 | 842,592 | 0 | 868,863 |
| Totals | <u>\$21,953,358</u> | <u>\$1,299,300</u> | <u>\$0</u> | <u>23,252,658</u> |
| Accumulated Depreciation | | | | <u>(8,387,165)</u> |
| Total General Fixed Assets | | | | <u>\$14,865,493</u> |

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Ohio Schools Risk Sharing Authority for property and fleet insurance, inland marine coverage, and general liability insurance. Insurance coverage provided includes the following:

| | |
|--|--------------|
| Property - including inland marine, miscellaneous equipment, and automobile physical damage catastrophic coverage (\$1,000 deductible) | \$25,111,326 |
| Automobile liability (zero deductible) | 1,000,000 |
| Uninsured Motorists (zero deductible) | 1,000,000 |
| Crime coverage - employee dishonesty, faithful performance, forgery or alteration, computer fraud, theft, disappearance, and destruction (\$1,000) | 50,000 |
| General Liability: | |
| Per occurrence | 1,000,000 |
| Annual Aggregate | 3,000,000 |

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 9 - RISK MANAGEMENT (Continued)

The School District is a member of the Scioto County Schools Council, a public entity shared risk pool (Note 17), offering medical and dental insurance to the employees of participating school districts. Monthly premiums are paid to the South Central Ohio Educational Service Center as fiscal agent, who in turn pays the claims on the School District's behalf. The Council is responsible for the management and operations of the program. Upon termination from the Council, for any reason, the School District shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the plan due up to the date of termination plus extended benefits, if any, provided under the plan.

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the School District pays an enrollment fee to the GRP to cover costs of administering the program.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$117,025, \$68,131, \$36,781, respectively; 56.72 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$50,652, representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

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

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 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 District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$537,307, \$368,770, and \$418,106, respectively; 87.12 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$725 made by the School District and \$630 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System of Ohio. As of June 30, 2003, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (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 on a pay-as-you-go basis.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

All STRS Ohio benefit recipients and sponsored 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. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$41,331 for fiscal year 2003.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000 and STRS Ohio had 105,300 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.

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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$93,201.

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, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for classified employees and certified employees.

B. Life Insurance

The School District provides life insurance to employees through Great American Life and Great American Reserve Insurance Company.

NOTE 13 – CAPITAL LEASE

The capital lease obligation recorded in the General Long-Term Obligations Account Group relates to a renovation project involving the buildings of the School District. Five more classrooms are being added to the middle school along with other renovations to the building. The elementary and high school buildings are also being renovated. At the time the School District entered into this lease, the renovations had not yet begun. As part of the agreement, Banc One Leasing Corporation, as lessor, deposited \$1,000,000 in the School District's name, with an escrow agent for the renovations to the buildings. Amounts will be paid to contractors by the School District as the work progresses. The School District will then submit the invoices to the agent for reimbursement. \$74,682 is still held by the escrow agent. Banc One will be repaid through lease payments for the completed buildings. No lease payments have been made as of June 30, 2003. The principal amount owed on the lease at fiscal year-end is \$1,000,000. There are mandatory deposits required to be made with the fiscal agent in order to ensure that the lease is paid timely. The School District is current on the sinking fund payments.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 13 – CAPITAL LEASE (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2003.

| Fiscal Year Ending June 30, | GLTOAG |
|---|-------------|
| 2004 | \$19,500 |
| 2005 | 19,500 |
| 2006 | 19,500 |
| 2007 | 19,500 |
| 2008 | 19,500 |
| 2009-2013 | 97,500 |
| 2014-2016 | 1,058,500 |
| Total | 1,253,500 |
| Less: Amount Representing Interest | (253,500) |
| Present Value of Minumum Lease Payments | \$1,000,000 |

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

| | Amount Outstanding 6/30/02 | Additions | Deductions | Amount Outstanding 6/30/03 |
|-------------------------------------|----------------------------------|-----------|------------|----------------------------------|
| <u>General Obligation Bonds:</u> | | | | |
| Refunding | | | | |
| Bonds 2001 2.05 - 4.00 % | \$1,669,747 | \$18,198 | \$155,000 | \$1,532,945 |
| <u>Other Long-Term Obligations:</u> | | | | |
| Capital Lease | 1,000,000 | 0 | 0 | 1,000,000 |
| Pension Obligation | 55,129 | 64,216 | 55,129 | 64,216 |
| Compensated Absences | 632,134 | 95,610 | 0 | 727,744 |
| Total Long-Term Obligations | \$3,357,010 | \$178,024 | \$210,129 | \$3,324,905 |

1991 Classroom Facilities Bonds - In 1991, the School District issued \$2,350,000 in voted general obligation bonds for the purpose of constructing a new high school and elementary school. The bonds were issued for a twenty-three year period with final maturity at December 1, 2013.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

On November 2001, the School District entered into an Escrow Trust Agreement with Bank One Trust Company, in anticipation of the Bond Issue. The funds deposited, together with interest earned thereon, is sufficient to pay annual bond principal and semiannual interest payments, thus providing an in-substance defeasance. The in-substance defeasance occurred for the following General Obligation Bond issue:

| Name of Bond Issue | <u>Original Issue</u> | <u>Unmatured and Unpaid at June 30, 2003</u> |
|---|-----------------------|--|
| 1991 Classroom Facilities General Obligation Bonds | <u>\$2,350,000</u> | <u>\$1,630,544</u> |

On December 1, 2001, the District issued \$1,660,000 in General Obligation Bonds to advance refund \$1,660,000 of outstanding 1991 Classroom Facilities General Obligation Bonds with an interest rate of 7.08%. \$1,565,000 was issued as serial bonds with interest rates ranging from 2.05% to 4.00%. \$95,000 was issued as capital appreciation bonds. The capital appreciation bonds will mature in fiscal years 2012, 2013, and 2014. The maturity amount of the capital appreciation bonds is \$205,000 in fiscal year 2012, \$210,000 in fiscal year 2013, and \$130,000 in fiscal year 2014, for a total of \$545,000. For fiscal year 2003, the capital appreciation bonds were accreted \$18,198.

The total outstanding bond value as of fiscal year-end 2003 was \$1,532,945. The total bond value at final maturity will be \$2,110,000.

In fiscal year 2002, the District received proceeds of \$1,889,756, which included a premium of \$229,756. \$1,821,923 of the proceeds (after payment of \$69,295 in underwriting fees, insurance and other issuance costs) was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Classroom Facilities General Obligation Bonds. As a result, the 1991 Classroom Facilities General Obligation Bonds are considered to be defeased and the liability for these bonds has been removed from the General Long-Term Obligations Account Group.

Compensated absences and the pension obligation will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$3,803,436 with an unvoted debt margin of \$43,450 at June 30, 2003.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2003, are as follows:

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

| Fiscal year Ending June 30, | Serial Bonds Principal | Serial Bonds Interest | Capital Appreciation Principal | Capital Appreciation Interest | Total |
|-----------------------------------|---------------------------|--------------------------|--------------------------------------|-------------------------------------|--------------------|
| 2004 | \$160,000 | \$46,910 | \$0 | \$0 | \$206,910 |
| 2005 | 160,000 | 42,750 | 0 | 0 | 202,750 |
| 2006 | 170,000 | 37,833 | 0 | 0 | 207,833 |
| 2007 | 170,000 | 32,223 | 0 | 0 | 202,223 |
| 2008 | 175,000 | 26,053 | 0 | 0 | 201,053 |
| 2009-2013 | 575,000 | 35,008 | 76,296 | 338,704 | 1,025,008 |
| 2014 | 0 | 0 | 18,704 | 111,296 | 130,000 |
| Total | <u>\$1,410,000</u> | <u>\$220,777</u> | <u>\$95,000</u> | <u>\$450,000</u> | <u>\$2,175,777</u> |

NOTE 15 – CONTRACTUAL COMMITMENT

As of June 30, 2003, the School District had the following contractual purchase commitments:

| Contractor | Contract Amount | Amount Expended | Balance at 06/30/03 |
|---|--------------------|--------------------|------------------------|
| General Heating and Air Conditioning | \$383,050 | \$5,020 | \$378,030 |
| Brush Contractors | 1,069,200 | 316,965 | 752,235 |
| Flow Master, Inc. | 136,055 | 57,742 | 78,313 |
| Quest Turf | 601,547 | 0 | 601,547 |
| J & H Reinforcing & Erectors | <u>1,242,750</u> | <u>462,865</u> | <u>779,885</u> |
| Totals | <u>\$3,432,602</u> | <u>\$842,592</u> | <u>\$2,590,010</u> |

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Adams, Brown, Highland, Lawrence, Pike, Ross, Jackson, Vinton, and Scioto Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, and one representative from the fiscal agent. The School District paid SCOCA \$23,581 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

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

The SERRC is governed by a Board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Pickaway-Ross County CTC, Shawnee State University, and Pike-Ross, Lawrence and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The fiscal agent for the SERRC is Dawson-Bryant Local School District. Financial information can be obtained by contacting Donald Washburn, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center, 411 Court Street, Portsmouth, Ohio 45662.

NOTE 17 - PUBLIC ENTITY SHARED RISK POOL

Scioto County Schools Council - The School District is a member of the Scioto County Schools Council, a public entity shared risk pool. Several Scioto County school districts have entered into an agreement with the South Central Ohio Educational Service Center to form the Scioto County Schools Council. The overall objectives of the council are to formulate and administer a program of health insurance for the benefit of the council members' employees and their dependents, to obtain lower costs for health coverage, and to secure cost control by implementing a program of comprehensive loss control. The Council's business and affairs are managed by a Board of Directors, consisting of the superintendents from each of the participating school districts. The School District pays premiums based on what the Council estimates will cover the costs of all claims for which the Council is obligated. If the School District's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. The Council views its activities in the aggregate, rather than on an individual

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 17 - PUBLIC ENTITY SHARED RISK POOL (Continued)

entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center, at 411 Court Street, Portsmouth, Ohio 45662.

NOTE 18 - INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan - The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND BALANCE RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

For fiscal year ended June 30, 2003, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refunds received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Budget Stabilization</u> |
|---|------------------|--------------------------------|---------------------------------|
| Set-aside Reserve Balance as of June 30, 2002 | \$0 | \$0 | \$36,052 |
| Current Year Set-aside Requirement | 163,435 | 163,435 | 0 |
| Current Year Offsets | 0 | (24,413) | 0 |
| Qualifying Disbursements | <u>(163,435)</u> | <u>(139,022)</u> | <u>0</u> |
| Set-aside Reserve Balance as of June 30, 2003 | <u>\$0</u> | <u>\$0</u> | <u>\$36,052</u> |

Amounts of offsets and qualifying disbursements presented in the table were limited to those necessary to reduce the year-end balance to zero. Although the School District may have had additional offsets and qualifying disbursements during the year, and those extra amounts may be used to reduce the set-aside requirements of future years, the School District has decided to not carry over such negative balances to the next year.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 20 – 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 decision is unconstitutional.

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

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

NOTE 21 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

The School District is not party to legal proceedings.

NOTE 22 – PRIOR PERIOD RESTATEMENT

Due to an error in posting of proceeds of capital lease in the prior year, a prior period restatement was made to move a portion of the proceeds from the Capital Projects Fund Type to the Special Revenue Fund Type. This restatement decreased Capital Project assets and beginning fund balance by \$230,000 and increased Special Revenue assets and beginning fund balance by \$230,000. This change is reflected as of July 1, 2002.

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**VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Noncash Receipts | Disbursements | Noncash Disbursements |
|--|----------------------------------|---------------------------|-------------------------|------------------------|-------------------------|--------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Donation | | 10.550 | \$0 | \$32,191 | \$0 | \$34,686 |
| School Breakfast Program | 05-PU-2002 05-PU-2003 | 10.553 | 12,182 38,394 | | 12,182 38,394 | |
| Total School Breakfast Program | | | <u>50,576</u> | <u>0</u> | <u>50,576</u> | <u>0</u> |
| National School Lunch Program | LL-P4-2002 LL-P4-2003 | 10.555 | 34,438 102,720 | | 34,438 102,720 | |
| Total National School Lunch Program | | | <u>137,158</u> | <u>0</u> | <u>137,158</u> | <u>0</u> |
| Total U.S. Department of Agriculture - Nutrition Cluster | | | 187,734 | 32,191 | 187,734 | 34,686 |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Title I Grants to Local Educational Agencies | C1-S1-2002 C1-S1-2003 | 84.010 | (13,574) 277,124 | | 58,918 267,536 | |
| Total Title I Grants to Local Educational Agencies | | | <u>263,550</u> | <u>0</u> | <u>326,454</u> | <u>0</u> |
| Special Education Grants to States | 6B-SF-2002 6B-SF-2003 | 84.027 | 1,440 119,399 | | 14,749 117,505 | |
| Total Special Education Grants to States | | | <u>120,839</u> | <u>0</u> | <u>132,254</u> | <u>0</u> |
| Safe and Drug-Free Schools and Communities - State Grants | DR-S1-2002 DR-S1-2003 | 84.186 | (203) 5,134 | | 2,915 4,384 | |
| Total Safe and Drug-Free Schools and Communities - State Grants | | | <u>4,931</u> | <u>0</u> | <u>7,299</u> | <u>0</u> |
| Goals 2000 - State and Local Education Systemic Improvement Grants | G2-S0-2001 | 84.276 | | | 6,543 | |
| Eisenhower Professional Development State Grants | MS-S1-2002 | 84.281 | (1,442) | | 131 | |
| Innovative Education Program Strategies | C2-S1-2003 | 84.298 | 6,818 | | 6,818 | |
| Education Technology State Grants | TJ-S1-2003 | 84.318 | 8,774 | | 8,774 | |
| Class Size Reduction | CR-S1-2003 | 84.340 | (739) | | 8,038 | |
| Rural Education | RU-S1-2003 | 84.358 | 21,437 | | 21,337 | |
| Improving Teacher Quality State Grants | TR-S1-2003 | 84.367 | 70,056 | | 68,843 | |
| Total United States Department of Education | | | 494,224 | 0 | 586,491 | 0 |
| FEDERAL EMERGENCY MANAGEMENT AGENCY | | | | | | |
| <i>Direct from the Federal Government:</i> | | | | | | |
| Public Assistance Grants | N/A | 83.544 | 2,995 | | 2,995 | |
| Total Federal Emergency Management Agency | | | <u>2,995</u> | <u>0</u> | <u>2,995</u> | <u>0</u> |
| Total Federal Awards Receipts and Expenditures | | | <u>\$684,953</u> | <u>\$32,191</u> | <u>\$777,220</u> | <u>\$34,686</u> |

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes the activity of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – RECLASSIFICATION OF FEDERAL FUNDS

Title II, formerly known as the Eisenhower Professional Development grant, and Title VI-R, formerly known as the Class Size Reduction grant, have been combined with the Title II-A, Improving Teacher Quality grant. The \$1,442 remaining in the Title II grant and \$739 in the Title VI-R grant were transferred to the Title II-A grant. The transfers are presented as a reduction of Title II and Title VI-R receipts, resulting in negative receipts of (\$1,442) and (\$739), respectively. The following table summarizes the transfers:

| Program Title | Federal CFDA Number | Transfer In | Transfer Out |
|--|---------------------|-------------|--------------|
| Eisenhower Professional Development (Title II) | 84.281 | | \$1,442 |
| Class Size Reduction (Title VI-R) | 84.340 | | 739 |
| Improving Teacher Quality (Title II-A) | 84.367 | \$2,181 | |

NOTE D – NEGATIVE RECEIPTS

Safe and Drug-Free Schools and Communities Grant, CFDA #84.186, funds in the amount of \$203 were carried over from 2002 to the next program year, resulting in a negative receipt of (\$203).

Title I Grants to Local Educational Agencies Grant, CFDA #84.010, funds in the amount of \$13,574 were carried over from 2002 to the next program year, resulting in a negative receipt of (\$13,574).



**Auditor of State
Betty Montgomery**

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

Valley Local School District
Scioto County
P.O. Box 888
Lucasville, Ohio 45648

To The Board of Education:

We have audited the general purpose financial statements of the Valley Local School District, Scioto County, Ohio (the School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated March 30, 2004. 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 District's general purpose 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated March 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of 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 general purpose 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 District in a separate letter dated March 30, 2004.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
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www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

March 30, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Valley Local School District
Scioto County
P.O. Box 888
Lucasville, Ohio 45648

To the Board of Education:

Compliance

We have audited the compliance of the Valley Local School District, Scioto County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The School District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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www.auditor.state.oh.us

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

March 30, 2004

**VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

**VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE YEAR ENDED JUNE 30, 2003**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|--|------------------|--|
| 2002-10773-001 | Ohio Rev. Code Section 5705.41(B) – Expenditures plus encumbrances exceeded appropriations | No | Partially Corrected: The School District has made significant improvement. This is no longer significant and is reported in the Management Letter of the current audit. |



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

VALLEY LOCAL SCHOOL DISTRICT

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 20, 2004**