

Valley Local School District  
Scioto County  
Single Audit  
July 1, 2004 through June 30, 2005  
Fiscal Year Audited Under GAGAS: 2005

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
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**Auditor of State  
Betty Montgomery**

Board of Education  
Valley Local School District  
P. O. Box 888  
Lucasville, Ohio 45648

We have reviewed the *Independent Auditors' Report* of the Valley Local School District, Scioto County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

September 25, 2006

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## Valley Local School District

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## Independent Auditors' Report

Valley Local School District

P.O. Box 888

Lucasville, Ohio 45648

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Local School District, Scioto County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of Valley Local School District, Perry County, as of June 30, 2005, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

As described in Note 3 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, and revised its financial presentation to the cash basis of accounting comparable to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments*.



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



**Valley Local School District, Scioto County**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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As management of the Valley Local School District, we offer the readers of the School District's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the notes to the basic financial statements to enhance their understanding of the School District's performance.

**Financial Highlights**

Net assets of governmental activities decreased \$428,044.

General revenues accounted for \$6,953,810 or 65 percent of all total revenues. Program specific revenues in the form of charges for services, sales, grants, and contributions accounted for \$3,742,060 or 35 percent of total revenues of \$10,695,870.

The School District had \$11,123,914 in expenses related to governmental activities; only \$3,742,060 of these expenses were offset by program specific charges for services, sales, grants, and contributions. General revenues (primarily grants, entitlements and property taxes) of \$6,953,810 were not adequate to provide for these programs.

**USING THE BASIC FINANCIAL STATEMENTS**

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

**REPORT COMPONENTS**

The *Statement of Net Assets* and *Statement of Activities* provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specific purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the basic financial statements.

**BASIS OF ACCOUNTING**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the School District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

**Valley Local School District, Scioto County**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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**REPORTING THE DISTRICT AS A WHOLE**

***Statement of Net Assets and Statement of Activities***

The statement of net assets and the statement of activities reflect how the School District did financially during 2005, within the limitations of the cash basis of accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School District's property tax base, the condition of the School District's capital assets and infrastructure, the extent of the School District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets and the statement of activities, the School District has one type of activity; governmental.

**Reporting the School District's Most Significant Funds**

***Fund Financial Statements***

Fund financial statements provide detailed information about the School District's major funds – not the District as a whole. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Fund.

***Governmental Funds*** All of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs. Since the School District is reporting on the cash basis of accounting, there are no differences in the Net Assets and fund cash balances or changes in Net Assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. However, differences will be apparent when comparing gross revenues and expenses on the Fund Financial Statements to the Statement of Activities due to transfers and advances netted on the Statement of Activities. See Note 2 to the basic financial statements.

**Valley Local School District, Scioto County**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2005**  
*Unaudited*

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**THE SCHOOL DISTRICT AS A WHOLE**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

(Table 1)  
Net Assets

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Current Assets	\$3,951,517	\$4,379,561
Total Assets	3,951,517	4,379,561
 <b>Net Assets</b>		
Restricted	1,549,434	1,631,235
Unrestricted	2,402,083	2,748,326
Total Net Assets	\$3,951,517	\$4,379,561

The most significant change from the prior year is due to a decrease in cash and cash equivalents due to capital outlay expenditures.

**Valley Local School District, Scioto County**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2005**  
**Unaudited**

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Table 2, shows the highlights of the School District's cash receipts and cash disbursements. These two main components are subtracted to yield the change in net assets. Comparative information for fiscal year 2004 is not available since this is the first year the School District implemented the provisions of GASB 34 for financial reporting on a cash basis.

Cash Receipts is further divided into two major components: Program Cash Receipts and General Cash Receipts. Program Cash Receipts are defined as charges for services and sales, capital and operating grants, and contributions. General Cash Receipts include property taxes, unrestricted grants, such as State foundation support, unrestricted contributions, investment earnings and miscellaneous revenues.

Cash Disbursements are shown in programs that are easily identifiable utilizing the current Uniform School Accounting System (USAS) coding structure.

(Table 2)  
Change in Net Assets

	<u>Governmental Activities</u>
	2005
<b>Cash Receipts</b>	
Program Cash Receipts:	
Charges for Services and Sales	\$1,397,176
Operating Grants and Contributions	2,344,884
Capital Grants and Contributions	0
Total Program Cash Receipts	3,742,060
General Cash Receipts:	
Property Taxes	1,362,369
Grants and Entitlements not Restricted to Specific Programs	5,422,520
Contributions and Donations	17,876
Investment Earnings	85,127
Miscellaneous	65,918
Total General Cash Receipts	6,953,810
Total Cash Receipts	\$10,695,870

**Valley Local School District, Scioto County**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2005**  
*Unaudited*

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(Table 2)  
Change in Net Assets  
(continued)

	Governmental Activities
	2005
<b>Program Cash Disbursements</b>	
Instruction:	
Regular	\$4,375,698
Special	975,664
Vocational	304,700
Other	100,181
Support Services:	
Pupils	381,806
Instructional Staff	833,262
Board of Education	49,107
Administration	666,949
Fiscal	191,359
Operation and Maintenance of Plant	967,724
Pupil Transportation	605,268
Central	328,971
Operation of Non-Instructional Services	409,732
Extracurricular Activities	218,324
Capital Outlay	492,865
Intergovernmental	0
Debt Service:	
Principal	160,000
Interest and Fiscal Charges	62,304
Total Cash Disbursements	11,123,914
 Change in Net Assets	 (\$428,044)
 Net Assets, Beginning of the Year	 4,379,561
Net Assets, End of the Year	\$3,951,517

Net assets decreased \$428,044, mainly due to a decrease in intergovernmental grant monies.

**Valley Local School District, Scioto County**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2005**  
**Unaudited**

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**Governmental Activities**

Grants and Entitlements not Restricted to Specific Programs made up 51 percent of cash receipts for governmental activities of the Valley Local School District for fiscal year 2005. Property Tax receipts made up 13 percent of the total cash receipts for governmental activities for a total of 64 percent of all cash receipts coming from property taxes and grants and entitlements not restricted to specific programs.

Regular instruction comprises 39 percent of governmental program cash disbursements. Support services expenses make up 36 percent of governmental cash disbursements.

The Statement of Activities shows the cost of program services and the charges for services and sales and grants offsetting those services. In Table 3, the total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program cash receipts. Net costs are costs that must be covered by unrestricted State aid (State Foundation) or local taxes. The difference in these two columns would represent charges for services, restricted grants, fees and donations.

Comparative information for fiscal year 2004 is not available since this is the first year the School District implemented the provisions of GASB 34 for financial reporting on a cash basis.

(Table 3)  
Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005
Instruction	\$5,756,243	\$3,899,479
Support Services	4,024,446	2,841,973
Operation of Non-Instructional Services	409,732	(112,441)
Extracurricular Activities	218,324	101,501
Capital Outlay	492,865	462,195
Intergovernmental	0	0
Principal	160,000	160,000
Interest and Fiscal Charges	62,304	29,147
Total Cash Disbursements/Expenses	\$11,123,914	\$7,381,854

**The School District's Funds**

The School District's major funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts of \$10,806,430 and cash disbursements of \$11,234,474. The most significant change in fund balance was in the General Fund.

For the General Fund, both receipts and disbursements remained consistent with the prior year. However, disbursements exceed current year revenues resulting in the decrease in fund balance for the fund in the amount of \$271,856.

For the Bond Retirement Fund, revenues exceeded disbursements resulting in the increase in fund balance in the amount of \$68,602.

**General Fund - Budget Highlights**

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

**Valley Local School District, Scioto County**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2005**  
**Unaudited**

During the course of fiscal year 2005, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund original and final budgeted amounts is listed on page 14, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For fiscal year 2005, the School District filed an amended certificate of estimated revenues which had estimated revenues equaling actual revenues. For the General Fund, final estimated revenues were \$8,705,520, with original estimated revenues of \$9,234,175, a difference of \$528,655. The difference was primarily due to a decrease in intergovernmental revenue which was the result of the elimination of parity aid and a slight reduction in state foundation basic aid.

At the end of fiscal year 2005, the School District amended its General Fund budget, (and all other funds' budgets) so that the final appropriations equaled actual expenditures for the fiscal year. This resulted in the General Fund's final appropriations increasing \$193,182 over the original appropriations.

**Capital Assets**

The School District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The School District had capital outlay disbursements of \$492,865 during fiscal year 2005.

**Debt**

Under the cash basis of accounting the School District does not report bonds, long-term or short-term notes or capital leases in the accompanying cash basis financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information about bonds and capital leases. At June 30, 2005, the School District had \$2,185,000 in bonds and capital leases. For additional information regarding debt, please see notes 10 and 11 to the basic financial statements. Table 4 summarizes the outstanding debt:

(Table 4)  
 Outstanding Debt, at Year End  
 Governmental Activities

	2005	2004
2001 General Obligation Refunding Bonds	\$1,185,000	\$1,345,000 *
Capital Lease	1,000,000	1,000,000
Totals	\$2,185,000	\$2,345,000

\* Restated to only show actual bond amount without capital bond appreciation. The total outstanding bond value as of fiscal year-end 2005 was \$1,185,000. The total outstanding bond value including accreted amounts is \$1,255,663. The total bond value at final maturity will be \$2,110,000.

The School District has entered into a capitalized lease for building renovations and additions.

The School District's overall legal debt margin was \$4,295,772 with an unvoted debt margin of \$60,897 at June 30, 2005.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Michael Bennett, Treasurer at Valley Local School District, P.O. Box 888, Lucasville, Ohio 45648, or email mbennett@valley.k12.oh.us.

**Valley Local School District, Scioto County**  
**Statement of Net Assets - Cash Basis**  
**June 30, 2005**

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,621,616
Cash and Cash Equivalents in Segregated Accounts	1,542
Investments in Segregated Accounts	22,373
Cash and Cash Equivalents with Escrow Agents	74,984
Investments with Escrow Agents	231,002
<i>Total Assets</i>	<i>3,951,517</i>
<b>NET ASSETS:</b>	
Restricted for Debt Service	579,737
Restricted for Capital Outlay	261,160
Restricted for Other Purposes	477,535
Restricted for Future Debt Service	231,002
Unrestricted	2,402,083
<i>Total Net Assets</i>	<i>\$3,951,517</i>

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



**Valley Local School District, Scioto County**  
**Statement of Activities - Cash Basis**  
**For the Fiscal Year Ended June 30, 2005**

	<u>Program Cash Receipts</u>			<b>Net Disbursements and Changes in Net Assets</b>
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$ 4,375,698	\$ 504,553	\$ 527,763	\$ (3,343,382)
Special	975,664	79,954	691,107	(204,603)
Vocational	304,700	40,177	-	(264,523)
Other	100,181	13,210	-	(86,971)
<b>Support Services:</b>				
Pupils	381,806	50,342	-	(331,464)
Instructional Staff	833,262	71,186	281,929	(480,147)
Board of Education	49,107	6,475	-	(42,632)
Administration	666,949	84,959	21,741	(560,249)
Fiscal	191,359	24,342	2,061	(164,956)
Operation and Maintenance of Plant	967,724	122,987	33,638	(811,099)
Pupil Transportation	605,268	79,810	358,708	(166,750)
Central	328,971	43,232	1,063	(284,676)
Operation of Non-Instructional Services	409,732	128,456	393,717	112,441
Extracurricular Activities	218,324	116,823	-	(101,501)
Capital Outlay	492,865	30,670	-	(462,195)
<b>Debt Service:</b>				
Principal	160,000	-	-	(160,000)
Interest and Fiscal Charges	62,304	-	33,157	(29,147)
<b>Total Governmental Activities</b>	<u>11,123,914</u>	<u>\$ 1,397,176</u>	<u>\$ 2,344,884</u>	(7,381,854)
<b>General Cash Receipts:</b>				
<b>Property Taxes Levied for:</b>				
General Purposes				1,085,170
Other Purposes				22,207
Debt Service				254,992
Grants and Entitlements, Not Restricted to Specific Programs				5,422,520
Gifts and Donations, Not Restricted to Specific Programs				17,876
Investment Earnings				85,127
Miscellaneous				65,918
<b>Total General Cash Receipts</b>				<u>6,953,810</u>
<b>Change in Net Assets</b>				(428,044)
<b>Net Assets Beginning of Year - As restated, see note 3</b>				<u>4,379,561</u>
<b>Net Assets End of Year</b>				<u>\$ 3,951,517</u>

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

**Valley Local School District, Scioto County**  
**Statement of Assets and Fund Balances - Cash Basis**  
**Governmental Funds**  
**June 30, 2005**

	<u>General</u>	<u>Bond Retirement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Equity in Pooled Cash and Cash Equivalents	\$2,466,342	\$427,587	\$691,635	\$3,585,564
Cash and Cash Equivalents in Segregated Accounts	1,542	-	-	1,542
Investments in Segregated Accounts	22,373	-	-	22,373
Cash and Cash Equivalents with Escrow Agents	-	-	74,984	74,984
Investments with Escrow Agents	-	231,002	-	231,002
<b>Restricted Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	36,052	-	-	36,052
<i>Total Assets</i>	<u>2,526,309</u>	<u>658,589</u>	<u>766,619</u>	<u>3,951,517</u>
<b>FUND BALANCES:</b>				
<b>Reserved:</b>				
Reserved for Encumbrances	400,554	-	138,446	539,000
Reserved for Future Debt Service	-	231,002	-	231,002
Reserved for Budget Stabilization	36,052	-	-	36,052
<b>Unreserved, Undesignated, Reported in:</b>				
General Fund	2,089,703	-	-	2,089,703
Special Revenue Funds	-	-	448,582	448,582
Debt Service Funds	-	427,587	-	427,587
Capital Projects Funds	-	-	179,591	179,591
<i>Total Fund Balances</i>	<u>\$2,526,309</u>	<u>\$658,589</u>	<u>\$766,619</u>	<u>\$3,951,517</u>

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

**Valley Local School District, Scioto County**  
**Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2005**

	General	Bond Retirement	All Other Governmental Funds	Total Governmental Funds
<b>CASH RECEIPTS:</b>				
Property Taxes	\$ 1,085,170	\$ 254,992	\$ 22,207	\$ 1,362,369
Intergovernmental	6,117,467	34,695	1,615,242	7,767,404
Interest	66,630	7,423	11,074	85,127
Tuition and Fees	1,085,902	-	-	1,085,902
Rent	3,245	-	-	3,245
Extracurricular Activities	88,035	-	-	88,035
Gifts and Donations	17,876	-	-	17,876
Customer Sales and Services	91,538	-	128,456	219,994
Miscellaneous	65,918	-	-	65,918
<i>Total Cash Receipts</i>	<u>8,621,781</u>	<u>297,110</u>	<u>1,776,979</u>	<u>10,695,870</u>
<b>CASH DISBURSEMENTS:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	3,826,465	-	549,233	4,375,698
Special	606,361	-	369,303	975,664
Vocational	304,700	-	-	304,700
Other	100,181	-	-	100,181
<b>Support Services:</b>				
Pupils	381,806	-	-	381,806
Instructional Staff	539,865	-	293,397	833,262
Board of Education	49,107	-	-	49,107
Administration	644,324	-	22,625	666,949
Fiscal	184,611	6,204	544	191,359
Operation and Maintenance of Plant	932,718	-	35,006	967,724
Pupil Transportation	605,268	-	-	605,268
Central	327,865	-	1,106	328,971
Operation of Non-Instructional Services	-	-	409,732	409,732
Extracurricular Activities	218,324	-	-	218,324
Capital Outlay	232,602	-	260,263	492,865
<b>Debt Service:</b>				
Principal	-	160,000	-	160,000
Interest and Fiscal Charges	-	62,304	-	62,304
<i>Total Cash Disbursements</i>	<u>8,954,197</u>	<u>228,508</u>	<u>1,941,209</u>	<u>11,123,914</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(332,416)</u>	<u>68,602</u>	<u>(164,230)</u>	<u>(428,044)</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Transfers In	-	-	25,000	25,000
Advances In	85,560	-	-	85,560
Transfers Out	(25,000)	-	-	(25,000)
Advances Out	-	-	(85,560)	(85,560)
<i>Total Other Financing Sources and Uses</i>	<u>60,560</u>	<u>-</u>	<u>(60,560)</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	<u>(271,856)</u>	<u>68,602</u>	<u>(224,790)</u>	<u>(428,044)</u>
<i>Fund Balances at Beginning of Year - As restated, see note 3</i>	<u>2,798,165</u>	<u>589,987</u>	<u>991,409</u>	<u>4,379,561</u>
<i>Fund Balances at End of Year</i>	<u>\$ 2,526,309</u>	<u>\$ 658,589</u>	<u>\$ 766,619</u>	<u>\$ 3,951,517</u>

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

**Valley Local School District, Scioto County**  
**Statement of Cash Receipts, Disbursements, and Changes**  
**In Fund Balance - Budget (Budgetary Basis) and Actual**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>CASH RECEIPTS:</b>				
Property Taxes	\$ 1,063,176	\$ 1,085,170	\$ 1,085,170	\$ -
Intergovernmental	6,852,724	6,117,467	6,117,467	-
Interest	33,810	66,630	66,630	-
Tuition and Fees	1,087,409	1,085,902	1,085,902	-
Rent	1,262	3,245	3,245	-
Extracurricular Activities	93,600	88,035	88,035	-
Gifts and Donations	5,500	17,876	17,876	-
Customer Sales and Services	49,131	91,538	91,538	-
Miscellaneous	47,563	64,097	64,097	-
<b>Total Cash Receipts</b>	<u>9,234,175</u>	<u>8,619,960</u>	<u>8,619,960</u>	<u>-</u>
<b>CASH DISBURSEMENTS:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	4,080,402	3,917,092	3,917,092	-
Special	759,587	616,947	616,947	-
Vocational	317,539	306,346	306,346	-
Other	23,134	100,181	100,181	-
<b>Support Services:</b>				
Pupils	377,312	385,623	385,623	-
Instructional Staff	419,956	556,686	556,686	-
Board of Education	33,020	57,722	57,722	-
Administration	590,130	646,832	646,832	-
Fiscal	193,755	194,408	194,408	-
Operation and Maintenance of Plant	903,332	996,985	996,985	-
Pupil Transportation	571,361	623,490	623,490	-
Central	241,867	336,864	336,864	-
Extracurricular Activities	219,717	226,330	226,330	-
Capital Outlay	429,709	389,247	389,247	-
<b>Total Cash Disbursements</b>	<u>9,160,821</u>	<u>9,354,753</u>	<u>9,354,753</u>	<u>-</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	<u>73,354</u>	<u>(734,793)</u>	<u>(734,793)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Advances In	-	85,560	85,560	-
Transfers Out	(25,750)	(25,000)	(25,000)	-
<b>Total Other Financing Sources and Uses</b>	<u>(25,750)</u>	<u>60,560</u>	<u>60,560</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	<u>47,604</u>	<u>(674,233)</u>	<u>(674,233)</u>	<u>-</u>
<b>Fund Balance at Beginning of Year</b>	<u>2,217,998</u>	<u>2,217,998</u>	<u>2,217,998</u>	<u>-</u>
<b>Prior Year Encumbrances Appropriated</b>	<u>558,077</u>	<u>558,077</u>	<u>558,077</u>	<u>-</u>
<b>Fund Balance at End of Year</b>	<u>\$ 2,823,679</u>	<u>\$ 2,101,842</u>	<u>\$ 2,101,842</u>	<u>\$ -</u>

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

**Valley Local School District, Scioto County**  
**Statement of Fiduciary Net Assets - Cash Basis**  
**Fiduciary Fund**  
**June 30, 2005**

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	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 13,228
<i>Total Assets</i>	<u>13,228</u>
NET ASSETS:	
Unrestricted	<u>13,228</u>
<i>Total Net Assets</i>	<u><u>\$ 13,228</u></u>

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

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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**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 69 non-certificated employees and 89 certificated full-time teaching personnel who provide services to 1,091 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 ensure 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.

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 13, 14 and 15 to the basic financial statements.

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

**A. Basis of Presentation**

The School District uses the provisions of GASB 34 for financial reporting on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America and GASB 38, for certain financial statement note disclosures. The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

*Government-wide Financial Statements*

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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

The statement of net assets-cash basis presents the cash basis financial condition of the governmental activities of the School District at year-end. The statement of activities-cash basis presents a comparison between direct cash disbursements and program cash receipts for each program or function of the School District's governmental activities. Direct cash disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program cash receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Cash receipts which are not classified as program cash receipts are presented as general cash receipts of the School District. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each governmental function is self-financing or draws from the general cash receipts of the School District.

*Fund Financial Statements*

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

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. All funds of the School District fall within two categories: governmental and fiduciary.

*Governmental Funds:*

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. On the cash basis of accounting governmental fund assets equal fund balance. The following are the School District's major governmental funds:

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.

Bond Retirement 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.

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

*Fiduciary Funds:*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has one fiduciary fund: an agency fund, used to account for student activity programs.

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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

**C. Basis of Accounting**

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e. when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

*Cash Receipts - Exchange and Non-exchange Transactions*

Cash receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the cash basis when the exchange takes place. On a cash basis, receipts are recorded in the fiscal year in which the resources are received.

*Cash Disbursements*

On the cash basis of accounting, disbursements are recognized at the time payments are made.

**D. Budgetary Process**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported in the final column of the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed. Before fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year in all funds.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year, including all supplemental appropriations. Prior to fiscal year-end, the School District passed a supplemental appropriation that reflected actual expenditures plus encumbrances for the fiscal year.



**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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

**E. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. The School District holds a donation of common stock, which is shown on the financial statements as "Investments in Segregated Accounts". During fiscal year 2005, the School District held money to be used for future renovations to the buildings of the School District. The monies are presented as "Cash and Cash Equivalents with Escrow Agent" on the financial statements.

During fiscal year 2005, the District's investments were limited to the State Treasury Assets Reserve of Ohio (STAR Ohio), commercial paper, and donated common stock. Investments are reported at fair value, which is based on quoted market prices.

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 STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

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 2005 amounted to \$66,630 and \$18,497 to all other governmental funds.

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 presented on the financial statements as cash equivalents.

**F. Capital Assets**

Capital assets acquired or constructed for the School District are recorded as disbursements at the time of acquisition. However, under the cash basis of accounting, capital assets and the related depreciation are not reported on the financial statements.

**G. Compensated Absences**

Vacation and sick leave benefits are not accrued under the cash basis of accounting as previously described. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees.

**H. Long-Term Obligations**

The School District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**I. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents legally required to be set-aside by the School District for budget stabilization.

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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

**J. 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. 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, debt service principal and budget stabilization.

The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

**K. Net Assets**

Net cash assets represent the difference between assets and liabilities. Net assets consist of cash receipts reduced by cash disbursements for the current year. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Restricted for Other Purposes is comprised of net assets restricted for grants. The School District applies restricted resources when a cash disbursement is made for purposes for which both restricted and unrestricted net assets are available.

**L. Interfund Transactions**

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented on the basic financial statements. In the government-wide financial statements transfers and advances within governmental activities are eliminated.

**NOTE 3 – RESTATEMENT OF NET ASSETS/FUND BALANCES AND CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2005, the School District has revised its financial presentation comparable to the provisions of GASB 34 for financial reporting but on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The School District had previously reported on a GAAP basis of accounting which was in accordance with accounting principles generally accepted in the United States of America. The implementation of cash basis financial statements resulted in following restatements on net assets and fund balances as previously stated:

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 3 – RESTATEMENT OF NET ASSETS/FUND BALANCES** (continued)

	General	Debt Service	Classroom Facilities	Nonmajor	Total
Fund Balances, June 30, 2004	\$2,005,898	\$602,494	\$404,681	\$404,863	\$3,417,936
Change in Major Funds Gasb 34 Cash Basis	0	0	(404,681)	404,681	0
Restatement	792,267	(12,507)	0	181,865	961,625
Restated Fund Balances, June 30, 2004	\$2,798,165	\$589,987	\$0	\$991,409	\$4,379,561
Net Assets, June 30, 2004					\$16,995,218
Modified Adjustments					961,625
Deferred Assets					(193,464)
Capital Assets					(16,757,180)
Accrued Interest Payable					3,749
Intergovernmental Payables					83,288
Long Term Liabilities:					
Compensated Absences Payable					892,021
Bonds Payable					1,394,304
Capital Leases Payable					1,000,000
Governmental Activities Net Assets, Restated June 30, 2004					\$4,379,561

The School District also implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments.

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

Differences between the budgetary basis fund balances and fund cash balances are due to encumbrances and cash, cash equivalents and investments in segregated accounts which are not included in budgeted figures. The table below represents those differences for the School District's Major fund:

	General Fund
Budgetary Basis Fund Balance	\$2,101,840
Encumbrances	400,554
Segregated Accounts	23,915
Fund Cash Balance	\$2,526,309

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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**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.

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;
4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the School District;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the School District lends securities and the eligible institutions agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
9. Certain bankers' acceptances 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

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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**NOTE 5 - DEPOSITS AND INVESTMENTS (continued)**

10. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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

**Deposits:** Custodial Credit Risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the District's deposits was \$99,143 and the bank balance was \$191,845. Of the bank balance \$174,984 was covered by federal depository insurance. At fiscal year end, \$16,861 of the District's bank deposits were exposed to custodial credit risk because they were uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by FDIC.

The District has no deposit policy for custodial credit risk beyond the requirements of State statute.

**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 for which securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's 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.

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

	Fair Value	Weighted Average Maturity
STAR Ohio	\$3,612,227	< 1 Year
Donated Common Stock	22,373	< 1 Year
General Electric Capital Corporation Commercial Paper	231,002	< 1 Year
Total Investments	\$3,865,602	

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s investment policy limits their investments to STAR Ohio, donated common stock and commercial paper and states that investments in common stock should be rated “A” or better by Moody’s or S&P at the time of purchase. Investments in STAR Ohio were rated AAAM by Standard & Poor’s. Investments in the General Electric Capital Corporation Commercial Paper were rated A-1+ by Standard & Poor’s and P1 by Moodys. Investment ratings for the donated common stock were not available.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. 93% of the School District’s investments are in STAROhio and 6% in General Electric commercial paper.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the School District’s investments are held in the name of the School District.

**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 year 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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.

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 6 - PROPERTY TAXES** (continued)

Public utility property tax revenue received in calendar year 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2004, were levied after April 1, 2004, and are collected in 2005 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 year 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three 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.

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, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$45,067,770	82.63%	\$50,934,230	83.64%
Public Utility	62,670	0.11%	62,180	0.10%
Tangible Personal Property	9,416,196	17.26%	9,901,054	16.26%
<b>Total Assessed Value</b>	<b>\$54,546,636</b>	<b>100.00%</b>	<b>\$60,897,464</b>	<b>100.00%</b>
Tax rate per \$1,000 of assessed valuation	\$31.21		\$30.21	

**NOTE 7 - 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 2005, 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)	\$24,256,274
Automobile liability (zero deductible)	2,000,000
Uninsured Motorists (zero deductible)	50,000
General Liability:	
Per occurrence	2,000,000
Annual Aggregate	4,000,000

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

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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**NOTE 7 - RISK MANAGEMENT** (continued)

The School District is a member of the Scioto County Schools Council, a public entity shared risk pool (Note 14), 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. All claims and expenses shall be paid from the funds of the Council.

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). 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 the costs of administering the program.

**NOTE 8 - 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.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current 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 2005, 10.57 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, 2005, 2004, and 2003 were \$189,855, \$124,284, and \$117,025 respectively, which represents the required annual contribution for each year.

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

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, or by visiting the STRS Ohio web site at [www.strsoh.org](http://www.strsoh.org).



**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 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. 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 Ohio for the fiscal years ended June 30, 2005, 2004, and 2003, were \$624,133, \$575,500, and \$537,307, respectively, which is the required annual contribution for each year.

**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. As of June 30, 2005, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NOTE 9 - 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 Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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

All STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, 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 \$44,581 for fiscal year 2005.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$152,913.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113 and the target level was \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

**NOTE 10 – CAPITAL LEASES - LESSEE DISCLOSURE**

In a previous fiscal year, the School District entered into a capital lease. This lease 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. 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. \$74,984 is still held by the escrow agent at fiscal year end. The School District makes annual interest payments to the lessor and annual sinking fund payments to the escrow agent. The escrow agent is investing the School District's deposits and has guaranteed a return on the investments to meet the School District's lease liability. Banc One will be repaid in fiscal year 2016 when the \$1,000,000 lease payment is due. There are mandatory deposits required to be made with the escrow agent in order to ensure that the lease is paid timely. The School District is current on the deposits.

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, 2005:

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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**NOTE 10 – CAPITAL LEASES - LESSEE DISCLOSURE** (continued)

Fiscal Year Ending June 30,	Total Payments
2006	\$19,500
2007	19,500
2008	19,500
2009	19,500
2010	19,500
2011-2015	97,500
2016	1,019,500
Total	1,214,500
Less: Amount Representing Interest	(214,500)
Present Value of Net Minimum Lease Payments	\$1,000,000

The following is a schedule of the interest and sinking fund payments required under the lease and escrow agreements:

Fiscal Year Ending June 30,	Principal	Interest	Sinking Fund Payments	Total Lease Payments
2006	\$0	\$19,500	\$71,429	\$90,929
2007	0	19,500	71,429	90,929
2008	0	19,500	71,429	90,929
2009	0	19,500	71,429	90,929
2010	0	19,500	71,429	90,929
2011-2015	0	97,500	107,452	204,952
2016	1,000,000	19,500	0	1,019,500
	\$1,000,000	\$214,500	\$464,597	\$1,679,097

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 11 - LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Restated* Amount Outstanding 6/30/04	Additions	Deductions	Amount Outstanding 6/30/05	Amount Due in One Year
<u>General Obligation Bonds:</u>					
2001 Obligation Refunding					
Bonds 2001 2.05 - 4.00 %					
Serial Bonds	\$1,250,000	\$0	\$160,000	\$1,090,000	\$160,000
Capital Appreciation Bonds	95,000	0	0	95,000	0
<u>Other Long-Term Obligations:</u>					
Capital Lease	1,000,000	0	0	1,000,000	0
Total Long-Term Obligations	<u>\$2,345,000</u>	<u>\$0</u>	<u>\$160,000</u>	<u>\$2,185,000</u>	<u>\$160,000</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. The Bond Retirement fund is being used to repay the bonds.

\*The June 30, 2004 balance was restated to show total bond amount without capital bond appreciation since the District does not follow GAAP. The total bond amount outstanding at June 30, 2005 including accretion is \$1,255,663.

The School District's overall legal debt margin was \$4,295,772 with an unvoted debt margin of \$60,897 at June 30, 2005.

Principal and interest requirements to retire the General Obligation Bonds outstanding at June 30, 2005, are as follows:

Fiscal year Ending June 30,	Serial Bonds Principal	Serial Bonds Interest	Capital Appreciation Bonds	Total
2006	\$170,000	\$37,833	\$0	\$207,833
2007	170,000	32,223	0	202,223
2008	175,000	26,053	0	201,053
2009	185,000	35,008	0	220,008
2010	190,000	0	0	190,000
2011-2014	200,000	0	545,000	745,000
Total	<u>\$1,090,000</u>	<u>\$131,117</u>	<u>\$545,000</u>	<u>\$1,766,117</u>

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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**NOTE 12 – INTERFUND ACTIVITY**

**A. Interfund Advances**

As of June 30, 2005, interfund advances that resulted from various interfund transactions were as follows:

		<u>General</u>
<b>Advances - Out</b>		
	All other governmental funds	<u>\$85,560</u>

During the year, the School District made advances to the General Fund which were for repayments of outstanding advances from prior years.

**B. Interfund Transfers**

Transfers made during the year ended June 30, 2005, were as follows:

		<u>Transfers From</u> <u>General</u>
<b>Transfers To</b>		
	All Other Nonmajor Funds	<u>\$25,000</u>

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

**NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS**

**A. 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 Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$9,698 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.

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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**NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS** (continued)

**B. 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 Career and Technology Center, Shawnee State University, and Ross-Pike, 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 14 - 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 programs of health and dental insurance for the benefit of the Council members' employees and their dependents, to obtain lower costs for health and dental 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 entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center, 411 Court Street, Portsmouth, Ohio 45662.

**NOTE 15 - 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 fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**VALLEY LOCAL SCHOOL DISTRICT**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

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**NOTE 16 - SET-ASIDE CALCULATIONS**

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 fiscal year-end or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future years.

For the fiscal year ended June 30, 2005, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies refunded from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2004	\$0	\$0	\$36,052
Current Year Set-aside Requirement	209,471	209,471	0
Current Year Offsets	0	0	0
Qualifying Disbursements	(730,838)	(932,718)	0
Totals	(\$521,367)	(\$723,247)	\$36,052
Set-aside Reserve Balance as of June 30, 2005	\$0	\$0	\$36,052

Although the School District had additional offsets and qualifying disbursements for textbooks during the fiscal year, and this extra amount may be used to reduce the set-aside requirements of future fiscal years, the School District has decided to not carry over such negative balances to the next fiscal year.

**NOTE 17 – 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 18 - 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, 2005.

**B. Litigation**

The School District is not party to any legal proceedings.

Valley Local School District  
Scioto County

Schedule of Federal Awards Expenditures  
For the Year Ended June 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>United States Department of Agriculture</u>						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	N/A	10.550	\$0	\$33,708	\$0	\$33,708
National School Breakfast Program	05PU	10.553	70,688	0	70,688	0
National School Lunch Program	LLP4	10.555	<u>157,359</u>	<u>0</u>	<u>157,359</u>	<u>0</u>
Total United States Department of Agriculture			<u>228,047</u>	<u>33,708</u>	<u>228,047</u>	<u>33,708</u>
<u>United States Department of Education</u>						
<i>Passed through Ohio Department of Education</i>						
Title I - Grants to Local Educational Agencies	C1S1	84.010	299,491	0	256,011	0
Special Education - Grants to States	6BSF	84.027	255,603	0	206,562	0
Safe and Drug Free Schools and Communities - State Grants	DRS1	84.186	8,325	0	7,329	0
State Grants for Innovative Programs	C2S1	84.298	11,985	0	11,627	0
Education Technology State Grants	TJS1	84.318	170,379	0	164,739	0
Improving Teacher Quality State Grant	TRS1	84.367	<u>94,502</u>	<u>0</u>	<u>72,578</u>	<u>0</u>
Total United States Department of Education			<u>840,285</u>	<u>0</u>	<u>718,846</u>	<u>0</u>
Total Federal Financial Assistance			<u>\$1,068,332</u>	<u>\$33,708</u>	<u>\$946,893</u>	<u>\$33,708</u>

N/A=Not Available

See accompanying notes to schedule of federal awards expenditures.



Valley Local School District  
Notes to Schedule of Federal Awards Expenditures  
For the Fiscal Year Ended June 30, 2005

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**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD NUTRITION CLUSTER**

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

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

**BALESTRA, HARR & SCHERER, CPAs, INC.**

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Piketon, Ohio 45661

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Members of the Board  
Valley Local School District  
P.O. Box 888  
Lucasville, Ohio 45648

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Local School District, Scioto County, Ohio (the School District), as of and for the year ended June 30, 2005 and have issued our report thereon dated February 1, 2006, wherein we noted the School District prepared its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America, revised its financial presentation to be comparable to the requirement of Governmental Accounting Standard Board Statement No. 34, and implemented GASB Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2005-001.

Valley Local School District  
Scioto County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Page 2

We noted certain matters that we reported to management of the School District in a separate letter dated August 16, 2006.

This report is intended for the information and use of the audit committee, 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 cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

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

# BALESTRA, HARR & SCHERER, CPAs, INC.

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

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Ohio Society of Certified Public Accountants

## **Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

Members of the Board  
Valley Local School District  
P.O. Box 888  
Lucasville, Ohio 45648

### **Compliance**

We have audited the compliance of the Valley Local School District (the 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, 2005. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the 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, 2005.

### **Internal Control Over Compliance**

The management of the 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 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.

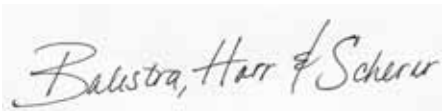
Valley Local School District  
Scioto County

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over  
Compliance in Accordance With OMB Circular A-133

Page 2

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

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



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

**Valley Local School District  
Scioto County**

**Schedule of Findings and Questioned Costs  
OMB CIRCULAR A -133 Section .505  
June 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

**Valley Local School District  
Scioto County**

**Schedule of Findings and Questioned Costs  
OMB CIRCULAR A -133 Section .505  
(Continued)**

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

**FINDING NUMBER 2005-001**

**Noncompliance Citation**

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

Ohio Administrative Code Section 117-2-03(B) requires the School District to file its annual financial report in accordance with generally accepted accounting principles. However, the School District prepares its financial statements in accordance with the cash basis of accounting. The accompanying financial statements and notes omit assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time.

Pursuant to Ohio Revised Code Section 117.38, the School District can be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should take the necessary steps to ensure that the annual financial report is prepared and filed pursuant to generally accepted accounting principles.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**VALLEY LOCAL SCHOOL DISTRICT  
SCIOTO COUNTY  
JUNE 30, 2005**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A-133 §315(c)**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person:</b>
2005-001	The School District officials do not believe that preparing financial statement in accordance with generally accepted accounting principles is cost beneficial.	N/A	Michael Bennett, Treasurer





**Auditor of State  
Betty Montgomery**

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P.O. Box 1140  
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800-282-0370

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**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  
OCTOBER 5, 2006**