

Valley Local School District
Scioto County
Single Audit
July 1, 2005 through June 30, 2006
Fiscal Year Audited Under GAGAS: 2006

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Mary Taylor, CPA
Auditor of State

Board of Education
Valley Local School District
1821 St. Rt. 728
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Lucasville, Ohio 45648-0888

We have reviewed the *Independent Auditor's Report* of the Valley Local School District, Scioto County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 16, 2007

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VALLEY LOCAL SCHOOL DISTRICT
Table of Contents

TITLE	PAGE
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government – Wide Financial Statements:	
Statement of Net Assets – Cash Basis.....	10
Statement of Activities – Cash Basis.....	11
Fund Financial Statements:	
Statement of Assets and Fund Balances – Cash Basis – Governmental Funds.....	12
Statement of Cash Receipts, Disbursements and Changes in Fund Balances – Cash Basis – Governmental Funds.....	13
Statement of Cash Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund.....	14
Statement of Cash Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – Classroom Facilities Maintenance Fund.....	15
Statement of Fiduciary Net Assets – Cash Basis – Fiduciary Fund.....	16
Notes to the Basic Financial Statements.....	17
Schedule of Federal Awards Expenditures.....	34
Notes to the Schedule of Federal Awards Expenditures.....	35
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with <i>Government Auditing Standards</i>	36
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	38
Schedule of Findings – OMB Circular A-133 § 505.....	40
Schedule of Prior Audit Findings - OMB Circular A-133 §315(b).....	42
Corrective Action Plan – OMB Circular A-133 § 315(c).....	43

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's 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, 2006, 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.

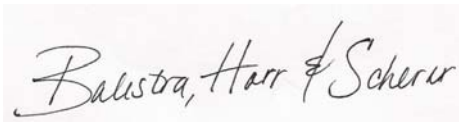
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of Valley Local School District, Scioto County, as of June 30, 2006, and the respective changes in cash basis financial position and the respective budgetary comparison for the General and Classroom Facilities Maintenance 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 February 23, 2007, 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 receipts and 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. 46, *Net Assets Restricted by Enabling Legislation*.

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.
February 23, 2007

Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

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, 2006. 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 \$62,700.

General cash receipts accounted for \$7,391,728 or 67 percent of all total revenues. Program specific cash receipts in the form of charges for services and sales, grants, and contributions accounted for \$3,685,863 or 33 percent of total cash receipts of \$11,077,591.

The School District had \$11,140,291 in expenses related to governmental activities; only \$3,685,863 of these cash disbursements were offset by program specific charges for services and sales, grants, and contributions. General cash receipts (primarily grants, entitlements, and property taxes) of \$7,391,728 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
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

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 2006, 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, the Bond Retirement fund, and the Classroom Facilities Maintenance fund.

Governmental Funds Most 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
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

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. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The School District's fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities.

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 2006 compared to 2005.

(Table 1)
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Current Assets	\$ 3,888,817	\$ 3,951,517
Total Assets	3,888,817	3,951,517
 Net Assets		
Restricted	1,536,478	1,549,434
Unrestricted	2,352,339	2,402,083
Total Net Assets	\$ 3,888,817	\$ 3,951,517

The most significant change from the prior year is due to a decrease in cash and cash equivalents. Total cash receipts increased from 2005 by \$381,721 while total cash disbursements increased only \$16,377; however, total cash disbursements still exceeded total cash receipts by \$62,700.

Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

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.

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

	Governmental Activities	
	2006	2005
Cash Receipts		
Program Cash Receipts:		
Charges for Services and Sales	\$ 1,444,934	\$ 1,397,176
Operating Grants and Contributions	2,240,929	2,344,884
Total Program Cash Receipts	3,685,863	3,742,060
 General Cash Receipts:		
Property Taxes	1,459,844	1,362,369
Grants and Entitlements not Restricted to Specific Programs	5,703,850	5,422,520
Contributions and Donations	10,158	17,876
Investment Earnings	154,337	85,127
Miscellaneous	63,539	65,918
Total General Cash Receipts	7,391,728	6,953,810
 Total Cash Receipts	\$ 11,077,591	\$ 10,695,870

Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

(Table 2)
Change in Net Assets
(continued)

	Governmental Activities	
	2006	2005
Program Cash Disbursements		
Instruction:		
Regular	\$ 4,377,832	\$ 4,375,698
Special	1,208,288	975,664
Vocational	310,871	304,700
Other	67,949	100,181
Support Services:		
Pupils	404,727	381,806
Instructional Staff	818,780	833,262
Board of Education	31,349	49,107
Administration	660,152	666,949
Fiscal	192,745	191,359
Operation and Maintenance of Plant	992,764	967,724
Pupil Transportation	730,801	605,268
Central	303,808	328,971
Operation of Non-Instructional Services	433,796	409,732
Extracurricular Activities	235,420	218,324
Capital Outlay	143,676	492,865
Debt Service:		
Principal	170,000	160,000
Interest and Fiscal Charges	57,333	62,304
Total Cash Disbursements	<u>11,140,291</u>	<u>11,123,914</u>
Change in Net Assets	(62,700)	(428,044)
Net Assets, Beginning of the Year	3,951,517	4,379,561
Net Assets, End of the Year	<u>\$ 3,888,817</u>	<u>\$ 3,951,517</u>

Net assets decreased \$62,700, mainly due to increases in cash disbursements for special education instruction and pupil transportation. The increase in cash disbursements in these and other governmental activities was partially offset by a decrease in capital outlay cash disbursements.

Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

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 2006. 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 37 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.

(Table 3)
Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Instruction	\$ 5,964,940	\$ 4,008,087	\$ 5,756,243	\$ 3,899,479
Support Services	4,135,126	3,027,142	4,024,446	2,841,973
Operation of Non-Instructional Services	433,796	(92,124)	409,732	(112,441)
Extracurricular Activities	235,420	202,104	218,324	101,501
Capital Outlay	143,676	110,799	492,865	462,195
Principal	170,000	170,000	160,000	160,000
Interest and Fiscal Charges	57,333	28,420	62,304	29,147
Total Cash Disbursements	\$ 11,140,291	\$ 7,454,428	\$ 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 \$11,077,591 and cash disbursements of \$11,140,291. The most significant change in fund balance was in the General fund.

For the General fund, intergovernmental cash receipts increased by \$278,234. These increases were partially offset by increases in cash disbursements for special instruction and pupil transportation of \$176,063 and \$124,760, respectively. However, cash disbursements plus transfers out exceeded current year cash receipts resulting in the decrease in fund balance for the General fund in the amount of \$173,970.

For the Bond Retirement fund, cash receipts and disbursements were consistent with the prior year. Cash receipts exceeded cash disbursements resulting in the increase in fund balance in the amount of \$64,528.

For the Classroom Facilities Maintenance fund, cash receipts exceeded cash disbursements resulting in the increase in fund balance in the amount of \$35,710. This increase was primarily due to a decrease in cash disbursements for operation and maintenance of plant of \$34,089.

Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

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. During the course of fiscal year 2006, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General fund's original and final budgeted amounts are listed on page 15, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For fiscal year 2006, the School District filed an amended certificate of estimated revenues. For the General fund, final estimated revenues were \$9,085,792, with original estimated revenues of \$8,714,532, a difference of \$371,260. Actual revenues were \$9,085,792, the same amount as final estimated revenues.

At the end of fiscal year 2006, the School District filed an amended appropriations resolution. This resulted in the General Fund's final appropriations decreasing \$89,074 under the original appropriations. Actual expenditures were \$9,583,653, the same amount as final estimated expenditures.

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 \$143,676 during fiscal year 2006.

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, 2006, the School District had \$2,015,000 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

	2006	2005
2001 General Obligation Refunding Bonds	\$ 1,015,000	\$ 1,185,000
Capital Lease	1,000,000	1,000,000
Totals	\$ 2,015,000	\$ 2,185,000

The School District's overall legal debt margin was \$4,375,797 with an unvoted debt margin of \$61,787 at June 30, 2006.

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
Statement of Net Assets - Cash Basis
June 30, 2006

	Governmental Activities
ASSETS:	
Equity in pooled cash and cash equivalents	\$ 3,475,207
Cash and cash equivalents in segregated accounts	2,022
Cash and cash equivalents with escrow agents	74,984
Investments in segregated accounts	21,949
Investments with escrow agents	<u>314,655</u>
<i>Total Assets</i>	<u>3,888,817</u>
NET ASSETS:	
Restricted for debt service	408,462
Restricted for capital outlay	310,467
Restricted for other purposes	502,894
Restricted for future debt service	314,655
Unrestricted	<u>2,352,339</u>
<i>Total Net Assets</i>	<u><u>\$ 3,888,817</u></u>

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

VALLEY LOCAL SCHOOL DISTRICT
Statement of Activities - Cash Basis
June 30, 2006

	<u>Program Cash Receipts</u>			Net Disbursements and Changes in Net Assets
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 4,377,832	\$ 530,524	\$ 558,060	\$ (3,289,248)
Special	1,208,288	110,726	703,934	(393,628)
Vocational	310,871	43,993	-	(266,878)
Other	67,949	9,616	-	(58,333)
Support Services:				
Pupils	404,727	57,276	-	(347,451)
Instructional staff	818,780	87,273	179,009	(552,498)
Board of Education	31,349	4,436	-	(26,913)
Administration	660,152	92,663	4,752	(562,737)
Fiscal	192,745	26,324	3,614	(162,807)
Operation and maintenance of plant	992,764	140,493	-	(852,271)
Pupil transportation	730,801	103,311	365,839	(261,651)
Central	303,808	42,994	-	(260,814)
Operation of non-instructional services	433,796	141,656	384,264	92,124
Extracurricular activities	235,420	33,316	-	(202,104)
Capital outlay	143,676	20,333	12,544	(110,799)
Debt Service:				
Principal	170,000	-	-	(170,000)
Interest and fiscal charges	57,333	-	28,913	(28,420)
Total Governmental Activities	<u>\$ 11,140,291</u>	<u>\$ 1,444,934</u>	<u>\$ 2,240,929</u>	<u>(7,454,428)</u>
General Cash Receipts:				
Property Taxes Levied for:				
General purposes				1,182,564
Other purposes				23,503
Debt service				253,777
Grants and entitlements, not restricted to specific programs				5,703,850
Gifts and donations, not restricted to specific programs				10,158
Investment earnings				154,337
Miscellaneous				63,539
Total General Cash Receipts				<u>7,391,728</u>
Change in Net Assets				(62,700)
Net Assets Beginning of Year				<u>3,951,517</u>
Net Assets End of Year				<u>\$ 3,888,817</u>

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

VALLEY LOCAL SCHOOL DISTRICT
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2006

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities Maintenance</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:					
Equity in pooled cash and cash equivalents	\$ 2,292,316	\$ 408,462	\$ 385,721	\$ 352,656	\$ 3,439,155
Cash and cash equivalents in segregated accounts	2,022	-	-	-	2,022
Cash and cash equivalents with escrow agents	-	-	-	74,984	74,984
Investments in segregated accounts	21,949	-	-	-	21,949
Investments with escrow agents	-	314,655	-	-	314,655
Restricted Assets:					
Equity in pooled cash and cash equivalents	36,052	-	-	-	36,052
<i>Total Assets</i>	<u>2,352,339</u>	<u>723,117</u>	<u>385,721</u>	<u>427,640</u>	<u>3,888,817</u>
FUND BALANCES:					
Reserved:					
Reserved for encumbrances	323,819	71,429	-	35,478	430,726
Reserved for future debt service	-	314,655	-	-	314,655
Reserved for budget stabilization	36,052	-	-	-	36,052
Unreserved, Undesignated, Reported in:					
General fund	1,992,468	-	-	-	1,992,468
Special revenue funds	-	-	385,721	81,695	467,416
Debt service funds	-	337,033	-	-	337,033
Capital projects funds	-	-	-	310,467	310,467
<i>Total Fund Balances</i>	<u>\$ 2,352,339</u>	<u>\$ 723,117</u>	<u>\$ 385,721</u>	<u>\$ 427,640</u>	<u>\$ 3,888,817</u>

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

VALLEY LOCAL SCHOOL DISTRICT
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
June 30, 2006

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities Maintenance</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS:					
Property taxes	\$ 1,182,564	\$ 253,777	\$ 23,503	\$ -	\$ 1,459,844
Intergovernmental	6,395,701	32,019	2,818	1,513,742	7,944,280
Interest	123,144	12,224	9,963	9,006	154,337
Tuition and fees	1,151,671	-	-	-	1,151,671
Rent	4,375	-	-	-	4,375
Extracurricular activities	92,008	-	-	-	92,008
Gifts and donations	10,158	-	-	500	10,658
Customer sales and services	55,223	-	-	141,656	196,879
Miscellaneous	63,534	-	-	5	63,539
<i>Total Cash Receipts</i>	<u>9,078,378</u>	<u>298,020</u>	<u>36,284</u>	<u>1,664,909</u>	<u>11,077,591</u>
CASH DISBURSEMENTS:					
Current:					
Instruction:					
Regular	3,747,837	-	-	629,995	4,377,832
Special	782,424	-	-	425,864	1,208,288
Vocational	310,871	-	-	-	310,871
Other	67,949	-	-	-	67,949
Support Services:					
Pupils	404,727	-	-	-	404,727
Instructional staff	616,696	-	-	202,084	818,780
Board of Education	31,349	-	-	-	31,349
Administration	654,787	-	-	5,365	660,152
Fiscal	186,012	6,159	574	-	192,745
Operation and maintenance of plant	992,764	-	-	-	992,764
Pupil transportation	730,028	-	-	773	730,801
Central	303,808	-	-	-	303,808
Operation of non-instructional services	-	-	-	433,796	433,796
Extracurricular activities	235,420	-	-	-	235,420
Capital outlay	143,676	-	-	-	143,676
Debt Service:					
Principal	-	170,000	-	-	170,000
Interest and fiscal charges	-	57,333	-	-	57,333
<i>Total Cash Disbursements</i>	<u>9,208,348</u>	<u>233,492</u>	<u>574</u>	<u>1,697,877</u>	<u>11,140,291</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(129,970)</u>	<u>64,528</u>	<u>35,710</u>	<u>(32,968)</u>	<u>(62,700)</u>
OTHER FINANCING SOURCES AND USES:					
Transfers in	-	-	-	44,000	44,000
Transfers out	(44,000)	-	-	-	(44,000)
<i>Total Other Financing Sources and Uses</i>	<u>(44,000)</u>	<u>-</u>	<u>-</u>	<u>44,000</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	<u>(173,970)</u>	<u>64,528</u>	<u>35,710</u>	<u>11,032</u>	<u>(62,700)</u>
<i>Fund Balances at Beginning of Year</i>	<u>2,526,309</u>	<u>658,589</u>	<u>350,011</u>	<u>416,608</u>	<u>3,951,517</u>
<i>Fund Balances at End of Year</i>	<u>\$ 2,352,339</u>	<u>\$ 723,117</u>	<u>\$ 385,721</u>	<u>\$ 427,640</u>	<u>\$ 3,888,817</u>

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

VALLEY LOCAL SCHOOL DISTRICT
Statement of Cash Receipts, Disbursements, and Changes
In Fund Balance - Budget and Actual (Budgetary Basis)
GENERAL FUND
June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Total revenues and other financing sources	\$ 8,714,532	\$ 9,085,792	\$ 9,085,792	\$ -
Total expenditures and other financing uses	9,672,717	9,583,643	9,583,643	-
Net Change in Fund Balance	(958,185)	(497,851)	(497,851)	-
Fund Balance at Beginning of Year	2,101,842	2,101,842	2,101,842	-
Prior Year Encumbrances Appropriated	400,558	400,558	400,558	-
Fund Balance at End of Year	<u>\$ 1,544,215</u>	<u>\$ 2,004,549</u>	<u>\$ 2,004,549</u>	<u>\$ -</u>

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

VALLEY LOCAL SCHOOL DISTRICT
Statement of Cash Receipts, Disbursements, and Changes
In Fund Balance - Budget and Actual (Budgetary Basis)
CLASSROOM FACILITIES MAINTENANCE FUND
June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Total revenues and other financing sources	\$ 29,965	\$ 36,284	\$ 36,284	\$ -
Total expenditures and other financing uses	34,633	574	574	-
Net Change in Fund Balance	(4,668)	35,710	35,710	-
Fund Balance at Beginning of Year	350,011	350,011	350,011	-
Prior Year Encumbrances Appropriated	-	-	-	-
Fund Balance at End of Year	\$ 345,343	\$ 385,721	\$ 385,721	\$ -

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

VALLEY LOCAL SCHOOL DISTRICT
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Fund
June 30, 2006

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 26,166
<i>Total Assets</i>	<u>\$ 26,166</u>
NET ASSETS:	
Unrestricted	\$ 26,166
<i>Total Net Assets</i>	<u>\$ 26,166</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, 2006

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 1,178 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, 2006

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.

Classroom Facilities Maintenance Fund - The Classroom Facilities Maintenance Special Revenue fund is used to account for the proceeds of a levy for the maintenance of facilities.

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.

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 a money market trust account and common stock, which are shown on the financial statements as "Cash and Cash Equivalents in Segregated Accounts" and "Investments in Segregated Accounts," respectively. During fiscal year 2006, 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 Agents" on the financial statements. The School District held money in a sinking fund to be used for payment of the capital lease for the building renovation project. The monies are presented as "Investments with Escrow Agents" on the financial statements.

During fiscal year 2006, 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, 2006.

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, the Bond Retirement fund, the Classroom Facilities Maintenance Special Revenue fund and all other governmental funds during fiscal year 2006 amounted to \$123,144, \$12,224, \$9,963 and \$9,006 respectively.

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.

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

J. Fund Balance Reserves

The School District reserves those portions of fund balance 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 balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, future debt service 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.

Of the School District's \$1,536,478 restricted net assets, none are restricted by enabling legislation.

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 – CHANGES IN ACCOUNTING PRINCIPLE

For the fiscal year 2006, the School District implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The application of this new standard did not have a material effect on the financial statements, nor did its implementation require a restatement of prior year balances.

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 funds:

	<u>General Fund</u>	<u>Classroom Facilities Maintenance Fund</u>
Budgetary Basis Fund Balance	\$ 2,004,549	\$ 385,721
Encumbrances	323,819	-
Segregated Accounts	23,971	-
Fund Cash Balance	<u>\$ 2,352,339</u>	<u>\$ 385,721</u>

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 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;

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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. High grade commercial paper in an amount not to exceed five percent of the School District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the School District's total average portfolio.

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 School 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 bank balance was \$160,084. \$60,084 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: As of June 30, 2006, the School had the following investments:

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

	<u>Fair Value</u>	Weighted Average Maturity
STAR Ohio	\$3,101,622	< 1 Year
Donated Common Stock	21,949	< 1 Year
General Electric Capital Corporation Commercial Paper	314,655	< 1 Year
Sweep Account	314,193	< 1 Year
US Gov't Money Market	77,006	< 1 Year
Total Investments	<u>\$3,829,425</u>	

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 and US Government Money Market were rated AAAM by Standard & Poor's. Investments in the General Electric Capital Corporation Commercial Paper were rated AAA by Standard & Poor's and Aaa/P-1 by Moodys. Investment ratings for the donated common stock and sweep account 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. 90% of the School District's investments are in STAROhio and 9% in General Electric commercial paper.

Custodial credit risk – 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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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, 2006

NOTE 6 - PROPERTY TAXES (continued)

Public utility property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2005, were levied after April 1, 2005, and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. 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, 2006, are available to finance fiscal year 2006 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 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$50,934,230	83.64%	\$51,506,980	83.36%
Public Utility	62,180	0.10%	62,520	0.10%
Tangible Personal Property	9,901,054	16.26%	10,217,128	16.54%
Total Assessed Value	\$60,897,464	100.00%	\$61,786,628	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$30.21		 \$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 2006, 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, 2006

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 2006, 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 ensures 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 toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$205,593, \$189,855, and \$124,284, 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.

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

State Teachers Retirement System (Continued)

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For fiscal year 2006 plan members are required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$586,395, \$624,133, and \$575,500 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, 2006, 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.

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, 2006, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$41,885 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2006 (the latest year available), the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006 (the latest year available), net health care costs paid by STRS Ohio were \$292,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 9 - POSTEMPLOYMENT BENEFITS (continued)

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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800.

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, 2006 were \$158,751,207 and the target level was \$295.6 million. SERS has approximately 59,492 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, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Total Payments</u>
2007	\$ 19,500
2008	19,500
2009	19,500
2010	19,500
2011	19,500
2012-2016	<u>1,097,500</u>
Total	1,195,000
Less: Amount Representing Interest	<u>(195,000)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 1,000,000</u>

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 10 – CAPITAL LEASES - LESSEE DISCLOSURE (continued)

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
2007	\$ -	\$ 19,500	\$ 71,429	\$ 90,929
2008	-	19,500	71,429	90,929
2009	-	19,500	71,429	90,929
2010	-	19,500	71,429	90,929
2011	-	19,500	71,429	90,929
2012-2016	1,000,000	97,500	107,452	1,204,952
	<u>\$ 1,000,000</u>	<u>\$ 195,000</u>	<u>\$ 464,597</u>	<u>\$ 1,659,597</u>

NOTE 11 - LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/05	Additions	Deductions	Amount Outstanding 6/30/06	Amount Due in One Year
<u>General Obligation Bonds:</u>					
2001 Obligation Refunding					
Bonds 2001 2.05 - 4.00 %					
Serial Bonds	\$ 1,090,000	\$ -	\$ 170,000	\$ 920,000	\$ 170,000
Capital Appreciation Bonds	95,000	-	-	95,000	-
<u>Other Long-Term Obligations:</u>					
Capital Lease	1,000,000	-	-	1,000,000	-
Total Long-Term Obligations	<u>\$ 2,185,000</u>	<u>\$ -</u>	<u>\$ 170,000</u>	<u>\$ 2,015,000</u>	<u>\$ 170,000</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 total general obligation bond amount outstanding at June 30, 2006 including accretion is \$1,266,615.

The School District's overall legal debt margin was \$4,375,797 with an unvoted debt margin of \$61,787 at June 30, 2006.

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

NOTE 11 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire the General Obligation Bonds outstanding at June 30, 2006, are as follows:

Fiscal year Ending June 30,	Serial Bonds Principal	Serial Bonds Interest	Capital Appreciation Bonds	Total
2007	\$ 170,000	\$ 32,223	\$ -	\$ 202,223
2008	175,000	26,053	-	201,053
2009	185,000	19,208	-	204,208
2010	190,000	11,800	-	201,800
2011	200,000	4,000	-	204,000
2012-2014	-	-	545,000	545,000
Total	<u>\$ 920,000</u>	<u>\$ 93,284</u>	<u>\$ 545,000</u>	<u>\$ 1,558,284</u>

NOTE 12 – INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2006, were as follows:

	<u>Transfer From</u>	<u>Transfer To</u>
Major Fund:		
General	\$ 44,000	\$ -
Non-Major Special Revenue Funds:		
Education Foundation	-	25,000
Lunchroom	-	10,000
Reducing Class Size	-	9,000
Total	<u>\$ 44,000</u>	<u>\$ 44,000</u>

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

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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 \$12,810 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.

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.

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2006

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.

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, 2006, 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.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2005	\$ -	\$ -	\$ 36,052
Current Year Set-aside Requirement	171,414	171,414	-
Qualifying Disbursements	(654,311)	(901,073)	-
Totals	<u>\$ (482,897)</u>	<u>\$ (729,659)</u>	<u>\$ 36,052</u>
Set-aside Reserve Balance as of June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,052</u>

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 - 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, 2006.

B. Litigation

The School District is not party to any legal proceedings.

VALLEY LOCAL SCHOOL DISTRICT
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2006

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>						
School Breakfast Program	05PU	10.553	\$ 69,571	\$ -	\$ 69,571	\$ -
National School Lunch Program	LLP4	10.555	<u>142,701</u>	<u>-</u>	<u>142,701</u>	<u>-</u>
Total Nutrition Cluster			212,272	-	212,272	-
Food Donation	N/A	10.550	<u>-</u>	<u>32,066</u>	<u>-</u>	<u>32,066</u>
Total United States Department of Agriculture			<u>212,272</u>	<u>32,066</u>	<u>212,272</u>	<u>32,066</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	246,316	-	255,187	-
Special Education Grants to States	6BSF	84.027	273,417	-	257,089	-
Safe and Drug Free Schools and Communities - State Grants	DRS1	84.186	11,626	-	9,881	-
State Grants for Innovative Programs	C2S1	84.298	3,674	-	3,761	-
Education Technology State Grants	TJS1	84.318	53,028	-	56,636	-
Improving Teacher Quality State Grants	TRS1	84.367	<u>69,019</u>	<u>-</u>	<u>87,479</u>	<u>-</u>
Total United States Department of Education			<u>657,080</u>	<u>-</u>	<u>670,033</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 869,352</u>	<u>\$ 32,066</u>	<u>\$ 882,305</u>	<u>\$ 32,066</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, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -FOOD DISTRIBUTIONS

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 nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

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

BALESTRA, HARR & SCHERER, CPAs, INC.

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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 Performed in Accordance with *Government Auditing Standards*

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

To the Board of Education:

We have audited the financial statements of the Valley Local School District, Scioto County, Ohio (the School District), as of and for the year ended June 30, 2006 and have issued our report thereon dated February 23, 2007, wherein we noted the School District adopted Governmental Accounting Standards Board Statement Number 46. 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 an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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.

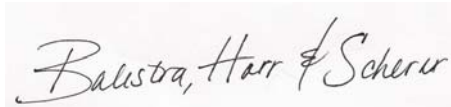
Compliance and Other Matters

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District in a separate letter dated February 23, 2007.

Valley Local School District
Scioto County
Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit Performed in Accordance
with *Governmental Auditing Standards*
Page 2

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 black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
February 23, 2007

BALESTRA, HARR & SCHERER, CPAs, INC.

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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 School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The School 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 School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

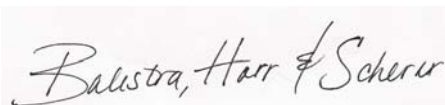
In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit we considered the 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.

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 an 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.
February 23, 2007

VALLEY LOCAL SCHOOL DISTRICT
Scioto County

Schedule of Findings and Questioned Costs
OMB CIRCULAR A -133 Section .505
June 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS
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(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):	Special Education - Grants to States - CFDA #84.027
(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 2006-001

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**

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §315(b)
FOR THE YEAR ENDED JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	Ohio Revised Code Section 117.38 noncompliance.	No	Reissued – 2006-001

VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY
JUNE 30, 2006

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

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person:
2006-001	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



Mary Taylor, CPA
Auditor of State

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
MAY 10, 2007