



**Auditor of State
Betty Montgomery**

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Valley View Local School District
Montgomery County
64 Comstock Avenue
Germantown, Ohio 45327

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Valley View Local School District, Montgomery County, (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the District as of June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) are not a required part of the basic financial statements but are supplementary information the Governmental Accounting Standards Board requires. 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.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

July 7, 2004

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The discussion and analysis of the Valley View Local School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities decreased \$389,675 which represents a 12.05% decrease from 2002.
- General revenues accounted for \$13,731,809 in revenue or 88.29% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,821,008 or 11.71% of total revenues of \$15,552,817.
- The District had \$15,942,492 in expenses related to governmental activities; only \$1,821,008 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$13,731,809 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$13,901,480 in revenues and other financing sources and \$14,121,422 in expenditures. During fiscal 2003, the general fund's fund balance, decreased \$231,652 from \$507,774 to \$276,122.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation of non-instructional services, extracurricular activities, latchkey and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the general fund.

Governmental Funds

Most of the 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 year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

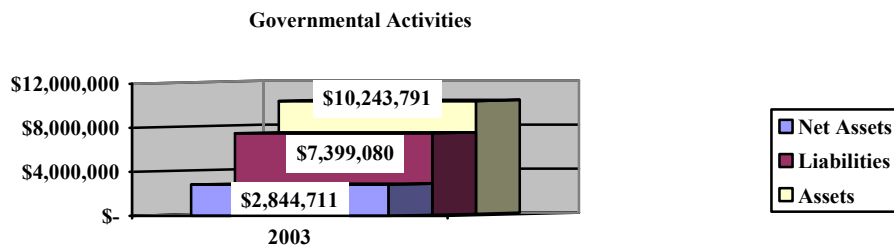
The table below provides a summary of the District's net assets for 2003.

	Net Assets
	Governmental Activities 2003
<u>Assets</u>	
Current and other assets	\$5,728,071
Capital assets	4,515,720
Total assets	10,243,791
<u>Liabilities</u>	
Current liabilities	5,363,075
Long-term liabilities	2,036,005
Total liabilities	7,399,080
<u>Net Assets</u>	
Invested in capital assets, net of related debt	3,312,755
Restricted	15,632
Unrestricted	(483,676)
Total net assets	\$2,844,711

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$2,844,711. At year-end, restricted net assets were \$15,632.

At year-end, capital assets represented 44.08% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2003, was \$3,312,755. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$15,632, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is \$(483,676).



**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

	Change in Net Assets
	Governmental Activities <u>2003</u>
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 1,182,327
Operating grants and contributions	572,221
Capital grants and contributions	66,460
General revenues:	
Property taxes	5,890,308
Grants and entitlements	7,683,675
Investment earnings	54,720
Other	<u>103,106</u>
Total revenues	<u>\$15,552,817</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	6,732,867
Special	1,250,870
Vocational	462,278
Other	233,889
Support services:	
Pupil	830,655
Instructional staff	619,464
Board of education	70,242
Administration	1,585,744
Fiscal	260,725
Business	7,290
Operations and maintenance	1,263,350
Pupil transportation	811,166
Central	327,290
Food service operations	719,653
Extracurricular activities	581,685
Latchkey operations	95,184
Interest and fiscal charges	<u>90,140</u>
Total expenses	<u>15,942,492</u>
Decrease in net assets	<u>\$ (389,675)</u>

VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

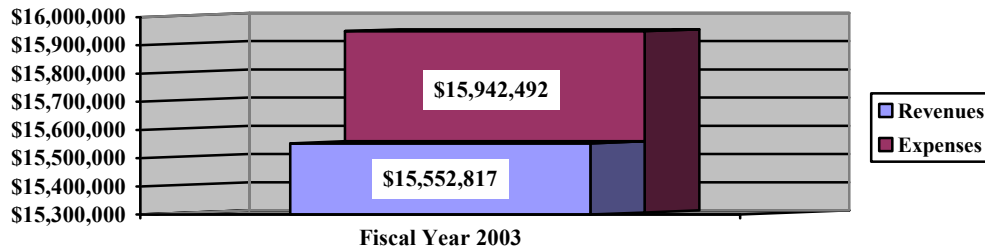
Governmental Activities

Net assets of the District's governmental activities decreased by \$389,675. Total governmental expenses of \$15,942,492 were offset by program revenues of \$1,821,008 and general revenues of \$13,731,809. Program revenues supported 11.42% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, a school district income tax, and grants and entitlements. These revenue sources represent 87.28% of total governmental revenue. Real estate property is reappraised every six years and the school district income tax rate is 1.25%

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

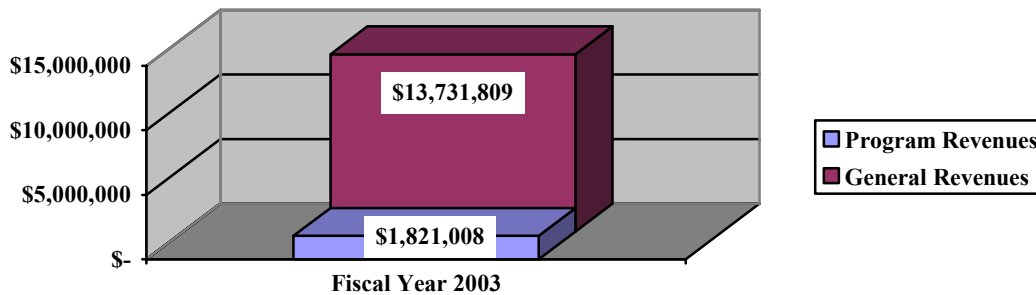
Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses		
Instruction:		
Regular	\$ 6,732,867	\$ 6,336,959
Special	1,250,870	1,004,620
Vocational	462,278	462,278
Other	233,889	228,588
Support services:		
Pupil	830,655	713,356
Instructional staff	619,464	607,528
Board of education	70,242	70,242
Administration	1,585,744	1,580,181
Fiscal	260,725	259,224
Business	7,290	7,290
Operations and maintenance	1,263,350	1,263,350
Pupil transportation	811,166	756,575
Central	327,290	305,969
Food service operations	719,653	51,049
Extracurricular activities	581,685	364,944
Latchkey operations	95,184	19,191
Interest and fiscal charges	90,140	90,140
Total expenses	\$ 15,942,492	\$ 14,121,484

The dependence upon tax and other general revenues for governmental activities is apparent, 92.54% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.58%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2003.

Governmental Activities - General and Program Revenues



**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$357,150, which is lower than last year's total of \$686,769. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	<u>Fund Balance June 30, 2003</u>	<u>Fund Balance June 30, 2002</u>	<u>Decrease</u>
General	\$ 276,122	\$ 507,774	\$ (231,652)
Other Governmental	<u>81,028</u>	<u>178,995</u>	<u>(97,967)</u>
Total	<u>\$ 357,150</u>	<u>\$ 686,769</u>	<u>\$ (329,619)</u>

General Fund

The District's general fund's fund balance decreased by \$231,652 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statements. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2003 Amount</u>	<u>Restated 2002 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 5,831,917	\$ 5,885,267	(0.91) %
Tuition	104,656	40,861	156.13 %
Earnings on investments	51,582	75,729	(31.89) %
Intergovernmental	7,683,675	7,064,754	8.76 %
Other revenues	<u>228,960</u>	<u>128,903</u>	77.62 %
Total	<u>\$ 13,900,790</u>	<u>\$ 13,195,514</u>	5.34 %
<u>Expenditures</u>			
Instruction	\$ 8,004,475	\$ 7,924,786	1.01 %
Support services	5,484,277	5,035,853	8.90 %
Extracurricular activities	325,738	307,520	5.92 %
Facilities acquisition and construction	2,736	86,645	(96.84) %
Debt Service	<u>304,196</u>	<u>296,698</u>	2.53 %
Total	<u>\$ 14,121,422</u>	<u>\$ 13,651,502</u>	3.44 %

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

General Fund Budgeting Highlights

The 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 2003, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$14,040,844, which is greater than the original budgeted revenues estimate of \$13,444,797. Actual revenues and other financing sources for fiscal 2003 was \$14,040,844, which was the same as the final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$13,644,275 were increased to \$14,407,578 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$14,407,578, which was the same as the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$4,515,720 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

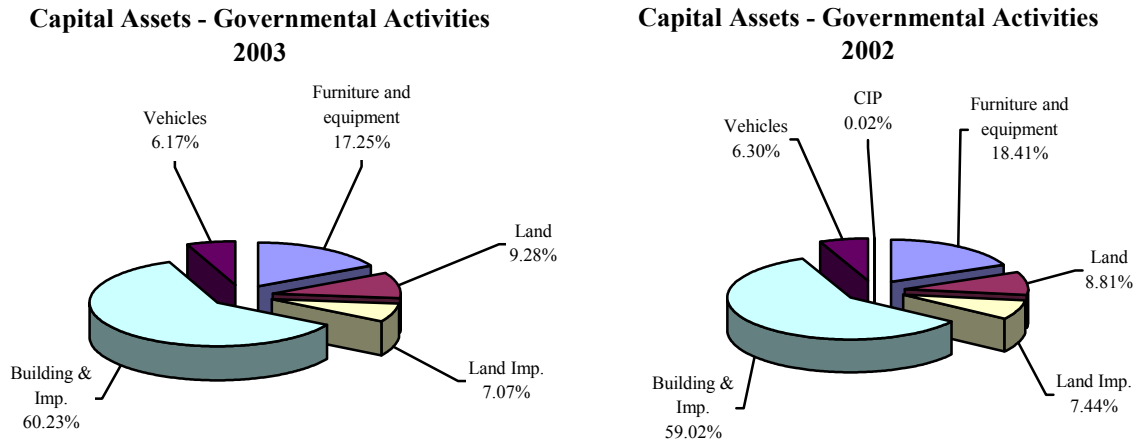
	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Land	\$ 419,243	\$ 419,243
Land improvements	319,099	354,332
Building and improvements	2,719,855	2,810,576
Furniture and equipment	778,868	876,420
Vehicles	278,655	299,973
Construction in progress	<u>-</u>	<u>805</u>
Total	<u>\$ 4,515,720</u>	<u>\$ 4,761,349</u>

Total additions to capital assets for 2003 were \$204,368. The District recorded \$424,353 in depreciation expense for fiscal 2003. Refer to Note 9 in the basic financial statements for further detail.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The following graphs show the breakdown governmental activities capital assets by category for 2003 and 2002.



Debt Administration

At June 30, 2003, the District had \$469,702 in general obligation bonds and energy conservation notes outstanding. Of this total, \$162,753 is due within one year and \$306,949 is due within greater than one year.

The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2003	Governmental Activities 2002
General obligation bonds	\$ 139,702	\$ 169,940
Energy conservation notes	330,000	475,000
Total	\$ 469,702	\$ 644,940

The energy conservation notes are scheduled to mature in fiscal year 2005 and bear an interest rate of 5.40%. Payment of principal and interest on the energy conservation notes are being made from the general fund.

The general obligation bonds are scheduled to mature in fiscal year 2015 and bear an interest rate of 6.90%. Payment of principal and interest on the general obligation bonds are being made from the general fund.

At June 30, 2003, the District's overall legal debt margin was \$16,352,532 with an unvoted debt margin of \$41,993 and an unvoted energy conservation debt margin of \$1,305,253.

See Note 11 to the basic financial statements for further detail on the District's debt outstanding.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Current Financial Related Activities

The District continues to provide excellent services to our students, parents and community while spending less than the average Ohio school district. The Board of Education and management team have carefully managed general fund budgets in order to minimize the need for additional local support. The last additional tax levy was approved in February 1995. The prudent management of the District's funds has allowed the District to fund student achievement without levying additional taxes to the local community for over eight years.

The District experienced continued improvement in student achievement in fiscal year 2003. This improvement was demonstrated by the "effective" designation of our District on the Ohio Department of Education district report card due to the achievement of 20 out of 22 indicators. The District was able to provide the services necessary to obtain the student achievement while spending \$452.00 less than the average Ohio school district.

The District has a low industry base and relies heavily on residential support for local funding. The District operates at the 20 mill floor, effectively collecting only 20 mills of property taxes on a total millage rate of 38.66 mills. The District also relies on two school district income tax levies that total 1.25%. A five-year .75% income tax levy is up for renewal in 2005 for calendar years 2006-2010 and a five-year .50% income tax levy is up for renewal in 2006 for calendar years 2007-2011.

The District suffered the financial impact in fiscal year 2003 of the poor economic conditions experienced by the nation and the Valley View community. The District experienced an unprecedented decline in income tax revenue in fiscal year 2003, receiving less income tax revenue than in fiscal 2002. The District also experienced a significant increase in delinquent property taxes in fiscal year 2003, and the future collection of the property tax delinquencies is uncertain and difficult to predict. These two declines in our fiscal year 2003 local revenue significantly impacted both the carryover balance for fiscal year 2003 and the future revenue forecasted for the district.

The District relies significantly on funding from the State of Ohio due to the low local valuation of primarily residential development. The primary source of state funding is the state foundation program, which funded the district at a state funding share of 61.66% in fiscal year 2003. The District experienced a state budget cut to the foundation program of \$97,038.95 in March of 2003 for fiscal year 2003 that reduced the payments in April, May and June of 2003. The District also suffered losses due to several legislative actions, including HB 95 that reduced revenue for fiscal year 2004 and beyond. The District's federal funding was also reduced in fiscal year 2004. The State of Ohio continues to struggle with budget deficits in the current biennial budget. The future of both State and Federal funding has been difficult to predict and the future of both is unknown.

The Ohio Supreme Court first ruled in March 1997 that the State of Ohio was operating an unconstitutional education system that was neither "adequate" nor "equitable". During September 2001, the Court issued its latest opinion on the issue, identifying aspects of the current plan that required modification, but then relinquished jurisdiction over the case. At this time the District is unable to determine what effect, if any, this decision will have on its future funding from the State.

The combination of losses in local, state and federal revenue and continued increases in the cost of doing business expenditures have significantly impacted the stability of the finances of the District. The community continues to lag behind in economic recovery and future revenue is difficult to predict. The revenue losses in fiscal year 2003 and the uncertainty of the district's future revenue resulted in a projected unencumbered balance deficit of \$797,645 for fiscal year 2005 on the October 2003 five-year forecast.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The District made significant reductions to the fiscal year 2004 budgeted expenditures in response to the projected deficit. After much discussion and consideration, the Board of Education decided on further reductions for fiscal year 2005 and also made the decision to propose an emergency property tax levy of 5.80 mills to avoid the operating deficit before making further cuts for fiscal year 2005. This levy failed by 143 votes on March 2, 2004, forcing the Board of Education to proceed with significant cuts for fiscal year 2005. The Board of Education is preparing to go back to the voters in August of 2004 to again propose an emergency property tax levy that will allow reinstatement of some of the reductions made after failure of the levy in March 2004 and to avoid a future operating deficit. The Board of Education has attempted to maintain the levels of student achievement obtained in recent years with less than state average spending, and hopes that the passage of the levy in August 2004 will help to ensure the resources necessary for the educational excellence and achievement of all of our students.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Beth Owens, Treasurer, Valley View Local School District, 64 Comstock Ave., Germantown, Ohio 45327.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$953,878
Receivables:	
Taxes	4,688,642
Accounts	29,194
Intergovernmental	7,906
Interfund loan to agency fund	1,262
Prepayments	42,857
Materials and supplies inventory	4,332
Capital assets:	
Land	419,243
Depreciable capital assets, net	4,096,477
Total capital assets	4,515,720
 Total assets	 10,243,791
Liabilities:	
Accounts payable	99,659
Accrued wages and benefits	1,359,836
Pension obligation payable	394,872
Intergovernmental payable	42,770
Deferred revenue	3,465,133
Accrued interest payable	805
Long-term liabilities:	
Due within one year	249,268
Due within more than one year	1,786,737
	1,786,737
 Total liabilities	 7,399,080
Net Assets:	
Invested in capital assets, net of related debt	3,312,755
Restricted for:	
Capital projects	9,144
Other purposes	6,488
Unrestricted (deficit)	(483,676)
	(483,676)
 Total net assets	 \$2,844,711

See accompanying notes to the basic financial statements.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$6,732,867	\$208,969	\$120,479	\$66,460	(\$6,336,959)
Special	1,250,870		246,250		(1,004,620)
Vocational	462,278				(462,278)
Other	233,889		5,301		(228,588)
Support services:					
Pupil	830,655	63,121	54,178		(713,356)
Instructional staff	619,464	4,222	7,714		(607,528)
Board of education	70,242				(70,242)
Administration	1,585,744		5,563		(1,580,181)
Fiscal	260,725		1,501		(259,224)
Business	7,290				(7,290)
Operations and maintenance	1,263,350				(1,263,350)
Pupil transportation	811,166	54,591			(756,575)
Central	327,290		21,321		(305,969)
Extracurricular activities	581,685	216,741			(364,944)
Food service operations	719,653	558,690	109,914		(51,049)
Latchkey operations	95,184	75,993			(19,191)
Interest and fiscal charges	90,140				(90,140)
Total governmental activities	<u>\$15,942,492</u>	<u>\$1,182,327</u>	<u>\$572,221</u>	<u>\$66,460</u>	<u>(\$14,121,484)</u>
General Revenues:					
Property taxes levied for:					
General purposes					5,890,308
Grants and entitlements not restricted to specific programs					7,683,675
Investment earnings					54,720
Miscellaneous					103,106
Total general revenues					<u>13,731,809</u>
Change in net assets					(389,675)
Net assets at beginning of year					<u>3,234,386</u>
Net assets at end of year					<u>\$2,844,711</u>

See accompanying notes to the basic financial statements.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$777,114	\$176,764	\$953,878
Receivables:			
Taxes	4,688,642		4,688,642
Accounts	29,194		29,194
Intergovernmental		7,906	7,906
Interfund loan to agency fund	1,262		1,262
Prepayments	42,857		42,857
Materials and supplies inventory		4,332	4,332
Total assets	5,539,069	189,002	5,728,071
Liabilities:			
Accounts payable	85,621	14,038	99,659
Accrued wages and benefits	1,276,321	83,515	1,359,836
Pension obligation payable	227,601	8,806	236,407
Intergovernmental payable	41,155	1,615	42,770
Deferred revenue	3,632,249		3,632,249
Total liabilities	5,262,947	107,974	5,370,921
Fund Balances:			
Reserved for encumbrances	70,307	22,410	92,717
Reserved for materials and supplies inventory		4,332	4,332
Reserved for property tax unavailable for appropriation	206,118		206,118
Reserved for prepayments	42,857		42,857
Reserved for unclaimed monies	5,319		5,319
Unreserved, undesignated, reported in:			
General fund	(48,479)		(48,479)
Special revenue funds		45,142	45,142
Capital projects funds		9,144	9,144
Total fund balances	276,122	81,028	357,150
Total liabilities and fund balances	\$5,539,069	\$189,002	\$5,728,071

See accompanying notes to the basic financial statements.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003**

Total governmental fund balances		\$357,150
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,515,720
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	167,116	
Total		167,116
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	139,702	
Capital lease obligation	733,263	
Energy conservation notes	330,000	
Compensated absences	833,040	
Pension obligation payable	158,465	
Accrued interest payable	805	
Total		(2,195,275)
Net assets of governmental activities		\$2,844,711

See accompanying notes to the basic financial statements.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Taxes	\$5,831,917		\$5,831,917
Tuition	104,656		104,656
Earnings on investments	51,582	3,138	54,720
Charges for services		634,683	634,683
Transportation fees	54,591		54,591
Classroom materials and fees	104,313		104,313
Extracurricular		282,434	282,434
Other local revenues	70,056	37,210	107,266
Intergovernmental - State	7,672,656	145,287	7,817,943
Intergovernmental - Federal	11,019	527,492	538,511
Total revenue	13,900,790	1,630,244	15,531,034
Expenditures:			
Current:			
Instruction:			
Regular	6,382,138	167,450	6,549,588
Special	941,585	292,646	1,234,231
Vocational	452,363	556	452,919
Other	228,389	5,500	233,889
Support Services:			
Pupil	692,428	133,393	825,821
Instructional staff	596,086	16,768	612,854
Board of education	12,112		12,112
Administration	1,688,278	7,231	1,695,509
Fiscal	261,906	1,497	263,403
Business	7,290		7,290
Operations and maintenance	1,226,403	12,137	1,238,540
Pupil transportation	791,798		791,798
Central	207,976	24,513	232,489
Food service operations		703,515	703,515
Latchkey operations		97,306	97,306
Extracurricular activities	325,738	225,481	551,219
Facilities acquisition and construction	2,736	36,585	39,321
Debt service:			
Principal retirement	213,390		213,390
Interest and fiscal charges	90,806		90,806
Total expenditures	14,121,422	1,724,578	15,846,000
Revenues (under) expenditures.	(220,632)	(94,334)	(314,966)
Other financing sources (uses):			
Transfers in	690		690
Transfers (out)		(690)	(690)
Total other financing sources (uses)	690	(690)	
Net change in fund balances	(219,942)	(95,024)	(314,966)
Fund balances at beginning of year (restated)	507,774	178,995	686,769
Decrease in reserve for inventory	(11,710)	(2,943)	(14,653)
Fund balances at end of year	\$276,122	\$81,028	\$357,150

See accompanying notes to the basic financial statements

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Net change in fund balances - total governmental funds	(\$314,966)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$178,724) were less than depreciation expense (\$424,353) in the current period.	(245,629)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	21,783
Repayment of bonds, notes and capital lease obligations are expenditures in the governmental funds, but these repayments reduce long-term liabilities on the statement of net assets.	213,390
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.	666
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenses when consumed.	(14,653)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(50,266)</u>
Change in net assets of governmental activities	<u><u>(\$389,675)</u></u>

See accompanying notes to the basic financial statements.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$5,612,125	\$5,846,010	\$5,846,010	
Tuition	101,196	105,413	105,413	
Earnings on investments	52,144	54,317	54,317	
Transportation fees	52,407	54,591	54,591	
Classroom materials and fees	100,140	104,313	104,313	
Other local revenues	60,465	62,985	62,985	
Intergovernmental - State	7,365,690	7,672,656	7,672,656	
Intergovernmental - Federal	10,578	11,019	11,019	
Total Revenue	<u>13,354,745</u>	<u>13,911,304</u>	<u>13,911,304</u>	
Expenditures:				
Current:				
Instruction:				
Regular	6,000,819	6,489,969	6,489,969	
Special	1,068,630	1,010,281	1,010,281	
Vocational	442,971	453,402	453,402	
Other	59,160	225,375	225,375	
Support Services:				
Pupil	668,465	687,415	687,415	
Instructional staff	450,814	539,420	539,420	
Board of education	25,949	10,840	10,840	
Administration	1,600,538	1,816,465	1,816,465	
Fiscal	251,805	253,359	253,359	
Business	5,417	7,290	7,290	
Operations and maintenance	1,404,642	1,224,418	1,224,418	
Pupil transportation	748,523	842,660	842,660	
Central	186,715	208,229	208,229	
Extracurricular activities	293,648	315,523	315,523	
Facilities acquisition and construction	90,977	2,736	2,736	
Debt Service:				
Principal retirement	202,164	213,390	213,390	
Interest and fiscal charges	107,597	90,806	90,806	
Total Expenditures	<u>13,608,834</u>	<u>14,391,578</u>	<u>14,391,578</u>	
Revenues (under) Expenditures	<u>(254,089)</u>	<u>(480,274)</u>	<u>(480,274)</u>	
Other financing sources (uses):				
Refund of prior year expenditure	83,698	87,186	87,186	
Refund of prior year receipts		(16,000)	(16,000)	
Transfers in	6,354	6,619	6,619	
Advances in		34,469	34,469	
Advances out	(35,441)			
Proceeds from sale of capital assets		1,266	1,266	
Total other financing sources (uses)	<u>54,611</u>	<u>113,540</u>	<u>113,540</u>	
Net change in fund balance	(199,478)	(366,734)	(366,734)	
Fund balance at beginning of year (restated)	889,622	889,622	889,622	
Prior year encumbrances appropriated	<u>116,328</u>	<u>116,328</u>	<u>116,328</u>	
Fund balance at end of year	<u><u>\$806,472</u></u>	<u><u>\$639,216</u></u>	<u><u>\$639,216</u></u>	

See accompanying notes to the basic financial statements.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003**

	Private-Purpose Trust		Agency
	Scholarship		Agency
Assets:			
Equity in pooled cash and cash equivalents	\$22,294		\$79,205
Liabilities:			
Accounts payable	3,000		383
Interfund loan payable to general fund			1,262
Due to students			77,560
Total liabilities	3,000		\$79,205
Net Assets:			
Held in trust for scholarships	19,294		
Total net assets	\$22,294		

See accompanying notes to the basic financial statements.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$631
Gifts and contributions	1,500
	2,131
Total additions	2,131
Deductions:	
Scholarships awarded	4,501
	(2,370)
Change in net assets	(2,370)
Net assets at beginning of year	21,664
	21,664
Net assets at end of year	\$19,294
	\$19,294

See accompanying notes to the basic financial statements.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT

The Valley View Local School District (the "District") is located in Montgomery County and encompasses the Villages of Germantown, Carlisle and Farmersville and the Townships of German, Jackson, Jefferson, Miami and Gratis. The District serves an area of approximately 68 square miles.

The District was established through the consolidation of existing land areas and school districts and is organized under Section 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District ranks as the 276th largest by enrollment among the 740 public and community school districts in the state. It currently operates 2 elementary schools, 1 middle school, and 1 comprehensive high school. The District employs 111 non-certified and 144 certified employees to provide services to 2,028 students in grades K through 12 and various community groups.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organization's that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Jointly Governed Organizations

Miami Valley Career Tech Vocational School

The vocational school district is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide for the vocational and special education needs of its students. The Board of Education is comprised of 17 members elected from the 27 participating school districts. The school accepts non-tuition students from the District as a member school, however, it is considered to be a separate political subdivision and not part of the District. Financial information is available from Debbie Whitton, Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

Southwestern Ohio Educational Purchasing Cooperative (SOEPC)

SOEPC is a purchasing cooperative made up of nearly 100 school districts in Montgomery and surrounding counties. The Montgomery County Educational Service Center acts as fiscal agent for the group. The purpose of the cooperative is to obtain lower prices for supplies and materials commonly used by the member districts. The members are obligated to pay all fees, charges, and assessments as established by SOEPC. Each member district has one voting representative. Title to any and all equipment and supplies purchased by SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from SOEPC shall forfeit its claim to any and all SOEPC assets. One year of prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the District's General fund. Financial information is available from SOEPC by contacting Robert Brown, Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Metropolitan Dayton Educational Cooperative Association (MDECA)

The District is a participant in MDECA, which is a computer consortium of 25 public school districts within the boundaries of Darke, Greene, Miami, and Montgomery 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 MDECA consists of one representative from each district plus one representative from the fiscal agent. The District pays MDECA an enrollment based fee for services provided during the year; this fee totaled \$53,869 for fiscal 2003. Financial information is available from Jerry C. Woodyard, Executive Director, at 201 Riverside Drive, Dayton, Ohio 45405.

2. Related Organization

Germantown Public Library

The Germantown Public Library is a distinct political subdivision of the State of Ohio, created in accordance with Chapter 3375, ORC. The Board of Education is responsible for appointing the trustees of the Library; however, the Board cannot influence the Library's operation, nor does the Library represent a potential financial benefit or burden to the District. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the District must place the levy on the ballot. The Library may issue debt and determines its own budget. The Library did not receive any funding from the District during fiscal year 2003.

The District also participates in a public entity risk sharing pool, discussed in Note 13.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

1. Governmental Funds

Governmental funds are those through which most governmental functions typically 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. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the District's only major governmental fund:

General Fund

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) for food service, latchkey and uniform school supplies operations; and (c) for grants and other resources whose use is restricted to a particular purpose.

2. Proprietary Funds

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

3. 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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

1. Government-wide Financial Statements

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

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

2. Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

1. Revenues - Exchange and Non-exchange Transactions

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

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2. Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

3. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund, function, and object level of expenditures for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Montgomery County Budget Commission for rate determination.

2. Estimated Resources:

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

3. Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level for all funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

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

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 budget amounts reflect the first appropriation for that fund covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Lapsing of Appropriations:

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2003, investments were limited to nonnegotiable certificates of deposit and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit and repurchase agreements, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$51,582, which includes \$11,721 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Treasurer's investment account at fiscal year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method which means that the costs of inventory items are recorded as expenditure in the governmental funds when consumed.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food, purchased food and non-food supplies.

H. Capital Assets

General capital assets are those assets not specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from \$500 to \$5,000 for its general capital assets during fiscal 2003. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	Governmental Activities Estimated Lives
Land improvements	7 - 30 years
Buildings and improvements	7 - 40 years
Furniture and equipment	5 - 30 years
Vehicles	7 - 15 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets except for interfund balances between the governmental and agency funds.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the "vesting method". A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for this future severance eligibility, all employees at least fifty (50) years of age with at least ten (10) years of service or twenty (20) years of service at any age were included.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and notes are recognized on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, prepayments, unclaimed monies, materials and supplies inventory and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved on the fund financial statements by an amount equal to the carrying value of the asset.

O. Estimates

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

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basis financial statements.

Interfund activity between governmental funds are eliminated in the statement of activities.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by fund reclassifications the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Statement of GASB Statement No. 34. Certain funds previously reported as enterprise funds are now reported as nonmajor governmental funds. It was determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002. The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor	Total
Fund balance June 30, 2002	\$514,506	\$121,252	\$635,758
Fund reclassifications	2,911	57,743	60,654
Implementation of GASB Interpretation No. 6	(9,643)	-	(9,643)
Adjusted fund balance, June 30, 2002	\$507,774	\$178,995	\$686,769

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Adjusted fund balance, June 30, 2002	\$686,769
GASB 34 adjustments:	
Long-term (deferred) assets	145,333
Capital assets	4,761,349
Long-term liabilities	(2,218,762)
Accrued interest payable	(1,471)
Pension obligations	(138,832)
Governmental activities net assets, June 30, 2002	\$3,234,386

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
Food Service	\$ 13,367
Management Information Systems	5
Extended Learning Opportunity	2
Title VI-B	287
Title I	17,455
Title VI	17
Drug-Free Schools	9
Reducing Class Size	68

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances result from adjustments for accrued liabilities.

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the 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 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 the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

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 or 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 2% 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;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reserve Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$835,176 and the bank balance was \$997,901. Both of these amounts include \$387,985 in nonnegotiable certificates of deposit. Of the bank balance:

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

1. \$687,985 was covered by federal depository insurance; and
2. \$309,916 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

	Category of Risk 3	Fair Value
Repurchase agreement	\$ <u>220,201</u>	\$ <u>220,201</u>
Total investments	\$ <u>220,201</u>	\$ <u>220,201</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,055,377	\$0
Investments of the cash management pool:		
Repurchase agreements	(220,201)	220,201
GASB Statement No. 3	<u>\$835,176</u>	<u>\$220,201</u>

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

5. INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2003, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Agency	\$ 1,262

The interfund loan will be repaid as monies are collected in the agency fund. The balance is expected to be collected in the next fiscal year.

- B. Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from nonmajor governmental funds to:	
General Fund	\$ 690

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them. The transfers above represent residual collections in the Uniform School Supplies Fund (a nonmajor governmental fund) which will now be accounted for in the general fund.

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

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

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

6. PROPERTY TAXES (Continued)

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

The District receives property taxes from Montgomery County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available as an advance at June 30, 2003 was \$206,118 in the general fund. This amount has been recorded as revenue. The amount that was available as advance at June 30, 2002 was \$187,572 in the general fund.

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

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

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

	2002 Second Half Collections		2003 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$141,568,730	87.45	\$159,858,520	87.98
Public utility personal	13,066,980	8.07	14,543,660	8.00
Tangible personal property	<u>7,242,679</u>	<u>4.48</u>	<u>7,292,623</u>	<u>4.02</u>
Total	<u>\$161,878,389</u>	<u>100.00</u>	<u>\$181,694,803</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations		\$41		\$41

7. SCHOOL DISTRICT INCOME TAX

In fiscal 1991 the voters of the District passed an additional .5% income tax, effective for five years. This additional .50% income tax was renewed by the voters in fiscal 1996 and again in fiscal 2001 for calendar years 20002 - 2006. During fiscal 1995, voters of the District passed an additional .75% income tax, effective for five years, and renewed it in fiscal 2000 for calendar years 2001 - 2005. The tax is collected by the State of Ohio and remitted to the District quarterly. Total income tax revenue for fiscal 2003 credited to the general fund was \$2,298,695.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

8. RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, (both property and school district income taxes) accounts (billings for user charged services and student fees), interfund loans, interfund advances, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:	
Taxes	\$4,688,642
Accounts	29,194
Interfund loan to agency fund	1,262
Intergovernmental	<u>7,906</u>
Total	<u>\$4,727,004</u>

Receivables have been disaggregated on the face of the basic finance statements. All receivables are expected to be collected within the subsequent year.

9. CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy (see Note 2.H. for detail), the inclusion of food service capital assets as governmental capital assets, the reporting of land values that were not previously reported and due to errors and omissions in the amounts previously reported for certain capital assets.

	<u>Balance</u> <u>06/30/02</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>07/01/02</u>
Governmental Activities:			
<i>Capital assets, not being depreciated:</i>			
Land	\$0	\$419,243	\$419,243
Construction in progress	<u>805</u>	<u>-</u>	<u>805</u>
Total capital assets, not being depreciated	<u>805</u>	<u>419,243</u>	<u>420,048</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	602,228	210,127	812,355
Buildings and improvements	6,312,723	44,372	6,357,095
Furniture and equipment	2,124,686	(253,879)	1,870,807
Vehicles	<u>1,141,853</u>	<u>(125,452)</u>	<u>1,016,401</u>
Total capital assets, being depreciated	<u>10,181,490</u>	<u>(124,832)</u>	<u>10,056,658</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(5,715,357)</u>	<u>(5,715,357)</u>
Governmental activities capital assets, net	<u>\$10,182,295</u>	<u>(\$5,420,946)</u>	<u>\$4,761,349</u>

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

9. CAPITAL ASSETS (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance 07/01/02	Additions	Deductions	Balance 06/30/03
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$419,243	\$0	\$0	\$419,243
Construction in progress	805	24,839	(25,644)	-
Total capital assets, not being depreciate	<u>420,048</u>	<u>24,839</u>	<u>(25,644)</u>	<u>419,243</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	812,355	-	-	812,355
Buildings and improvements	6,357,095	33,632	-	6,390,727
Furniture and equipment	1,870,807	80,463	-	1,951,270
Vehicles	1,016,401	65,434	-	1,081,835
Total capital assets, being depreciated	<u>10,056,658</u>	<u>179,529</u>	<u>-</u>	<u>10,236,187</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(458,023)	(35,233)	-	(493,256)
Buildings and improvements	(3,546,519)	(124,353)	-	(3,670,872)
Furniture and equipment	(994,387)	(178,015)	-	(1,172,402)
Vehicles	(716,428)	(86,752)	-	(803,180)
Total accumulated depreciation	<u>(5,715,357)</u>	<u>(424,353)</u>	<u>-</u>	<u>(6,139,710)</u>
Governmental activities capital assets, net	<u>\$4,761,349</u>	<u>(\$219,985)</u>	<u>(\$25,644)</u>	<u>\$4,515,720</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$138,046
Special	4,459
Vocational	6,393
<u>Support Services:</u>	
Pupil	2,924
Instructional staff	3,852
Administration	1,761
Fiscal	221
Operations and maintenance	24,465
Pupil transportation	95,577
Central	92,169
Extracurricular activities	39,591
Food service operations	14,895
Total depreciation expense	<u>\$424,353</u>

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

10. CAPITALIZED LEASES - LESSEE DISCLOSURE

In the prior year, the District entered into a lease for a building. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments have been recorded as debt service expenditures in the fund financial statements. Capital assets acquired by lease and the related lease obligation liability have been reported on the statement of net assets.

Principal payments for fiscal year 2003 totaled \$38,152. This amount is reflected as debt service principal retirement in the general fund.

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

<u>Year Ending June 30</u>	<u>Building</u>
2004	\$90,038
2005	90,038
2006	90,039
2007	90,038
2008	90,039
2009 - 2013	450,293
2014 - 2015	<u>179,927</u>
Total future minimum lease payments	1,080,412
Less: amount representing interest	<u>(347,149)</u>
Present value of future minimum lease payments	<u>\$733,263</u>

11. LONG-TERM OBLIGATIONS

The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$60,387 from \$702,744 to \$763,131 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. Pension obligations of \$92,376 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was a decrease of \$13,334 from \$2,230,130 to \$2,216,796. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

	<u>Issued</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Restated Balance 07/01/02</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/03</u>	<u>Amount Due in One Year</u>
<u>G.O. Bonds Payable</u>								
School bus purchase	1996	2003	5.49%	\$23,000	\$0	(\$23,000)	\$0	\$0
Facility acquisition	2000	2015	6.9%	146,940	-	(7,238)	139,702	7,753
Total G.O. bonds				169,940	-	(30,238)	139,702	7,753
<u>Notes Payable</u>								
Energy conservation	1996	2005	5.40%	475,000	-	(145,000)	330,000	155,000
Total notes payable				475,000	-	(145,000)	330,000	155,000
<u>Other Long-Term Obligations</u>								
Capital lease obligation				771,415	-	(38,152)	733,263	40,704
Compensated absences				763,131	144,056	(74,147)	833,040	45,811
Retirement incentive				37,310	-	(37,310)	-	-
Total other long-term obligations				1,571,856	144,056	(149,609)	1,566,303	86,515
Total governmental activities				<u>\$2,216,796</u>	<u>\$144,056</u>	<u>(\$324,847)</u>	<u>\$2,036,005</u>	<u>\$249,268</u>

Previously issued general obligation bonds outstanding, issued to provide funds for school bus purchases, in accordance with the terms of the State of Ohio's School Bus Purchase Finance Program, are general obligations of the District for which the full faith and credit of the District are pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to these liabilities are recorded as expenditures in the general fund. The state provides the funds for the repayment of these bonds. During fiscal 2003, the District received a total of \$29,056 as part of the state reimbursement for the school buses.

In fiscal year 1997, the District issued un-voted long-term "energy conservation" notes, under authority of H.B. 264. Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Accordingly, these notes are accounted for in the statement of net assets. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these notes without voter approval, and the subsequent repayment of the notes from operating revenues.

During fiscal 2000, the District issued un-voted general obligation bonds to provide funds for the acquisition of a new building. These bonds are general obligations of the District for which the full faith and credit of the District are pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets.

By agreement with the County Budget Commission, and in accordance with Ohio law, the District has converted a portion of its "inside", or un-voted millage to provide the source of repayment for these bonds. Ohio statutes allow for the issuance of un-voted general obligation debt to the extent that the par amount of said debt does not exceed 1/10 of 1% of the valuation (at issuance date) of the District.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

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

<u>Fiscal Year Ending June 30</u>	<u>General Obligation Bonds</u>			<u>Energy Conservation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$7,753	\$9,397	\$17,150	\$155,000	\$19,315	\$174,315
2005	8,306	8,845	17,151	175,000	10,325	185,325
2006	8,898	8,253	17,151	-	-	-
2007	9,540	7,610	17,150	-	-	-
2008	10,200	6,951	17,151	-	-	-
2009 - 2013	63,052	22,703	85,755	-	-	-
2014 - 2015	31,953	2,348	34,301	-	-	-
Total	<u>\$139,702</u>	<u>\$66,107</u>	<u>\$205,809</u>	<u>\$330,000</u>	<u>\$29,640</u>	<u>\$359,640</u>

Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$16,352,532, and an unvoted debt margin of \$41,993 and an unvoted energy conservation debt margin of \$1,305,253.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made to certified and classified employees for one-fourth of accrued, but unused sick leave credit up to a maximum of 79 days.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to most employees through National Term Life Insurance Company.

13. RISK MANAGEMENT

The 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. The District carries employee health and general liability insurance coverage through a commercial carrier. Absent the deductible, the risk of loss transfers entirely to the commercial carrier.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

13. RISK MANAGEMENT (Continued)

The District purchases dental and workers compensation insurance through the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (the "Trust"). The Trust is a public entity risk pool currently operating as a common risk management and insurance program. The intent of the Trust is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Trust. The workers compensation experience of the participating school districts is calculated as one experience and the common premium rate is applied to all districts in the Trust. The Trust is self-sustaining through member premiums and will reinsure through commercial coverage for claims in excess of the pooling level per year.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 15. As such, no funding provisions are required by the District.

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal 2002.

14. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% 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 adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$297,764, \$269,634, and \$264,282, respectively; 41.75% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$173,460, represents the unpaid contribution for fiscal year 2003.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

14. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,029,955, \$981,285, and \$933,582, respectively; 82.93% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$175,812, represents the unpaid contribution for fiscal year 2003.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

14. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. The Board's liability is 6.2% of wages paid.

15. POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$73,569 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$162,997 during the 2003 fiscal year.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

16. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	General Fund
Budget basis	(\$366,734)
Net adjustment for revenue accruals	(10,514)
Net adjustment for expenditure accruals	132,258
Net adjustment for other sources/uses	(112,850)
Adjustment for encumbrances	137,898
GAAP basis	<u>(\$219,942)</u>

17. CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

17. CONTINGENCIES (Continued)

B. Litigation

The District is not a party to legal proceedings that would have a material effect on the financial condition of the District.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

18. STATUTORY RESERVES

The Districts 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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end.

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

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2002	(\$389,077)	\$0
Current year set-aside requirement	264,708	264,708
Qualifying disbursements	<u>(357,778)</u>	<u>(455,258)</u>
Total	<u>(\$482,147)</u>	<u>(\$190,550)</u>
Balance carried forward to FY 2004	<u>(\$482,147)</u>	<u>\$0</u>

The District had qualifying disbursements during the year that reduced the textbooks/instructional materials set-aside amount below zero, this extra amount may be used to reduce the set-aside requirements of future years.

Although the District had qualifying disbursements during the year that reduced the capital acquisition set-aside amount to below zero, this extra amount may not be carried forward to future years.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

19. SIGNIFICANT SUBSEQUENT EVENTS

On November 24, 2003, the District received a donation from the Thelma Dursch Estate in the amount of \$1,044,984 for the purpose of establishing a scholarship fund. The Estate limits the District to expending only the interest derived from the principal donation.

VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY

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

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Nutrition Cluster:						
Food Distribution	10.550	N/A		\$53,802		\$53,802
National School Lunch Program	10.555	LLP4-2002 LLP4-2003	12,313 39,591		12,313 39,591	
Total National School Lunch Program			<u>51,904</u>		<u>51,904</u>	
Total United States Department of Agriculture - Nutrition Cluster			<u>51,904</u>	<u>53,802</u>	<u>51,904</u>	<u>53,802</u>
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Title I Grants to Local Education Agencies	84.010	C1S1-2003	112,599		112,077	
Special Education Cluster:						
Special Education Grants to States	84.027	6BSF-2002-P 6BSF-2003-P	55,282 164,352		55,282 152,777	
Total Special Education Grants to States			<u>219,634</u>		<u>208,059</u>	
Special Education Preschool Grant	84.173	PGS1-2002-P PGS1-2003-P			1,251 3,464	
Total Special Education Preschool Grant			<u>4,336</u>		<u>4,715</u>	
Total Special Education Cluster			<u>223,970</u>		<u>212,774</u>	
Safe and Drug Free Schools and Communities -- State Grants	84.186	DRS1-2002 DRS1-2003			3,115 7,041	
Total Safe and Drug Free Schools and Communities -- State Grants			<u>7,041</u>		<u>10,156</u>	
Eisenhower Professional Development State Grants	84.281	MSS1-2002	850		850	
Innovative Education Program Strategies	84.298	C2S1-2002 C2S1-2003	5,479 10,605		5,479 10,605	
Total Innovative Education Program Strategies			<u>16,084</u>		<u>16,084</u>	
Technology Literacy Challenge Fund Grants	84.318	TJS1-2003	3,083		3,083	
Class Size Reduction Subsidy	84.340	CRS1-2002	24,997		29,472	
School Renovation Grants	84.352A	ATS2-2002 ATS3-2002 ATS4-2002	6,525 8,257 2,886		6,525 8,257	
Total School Renovation Grants			<u>17,668</u>		<u>14,782</u>	
Improving Teacher Quality State Grants	84.367	TRS1-2003	56,052		56,052	
Total United States Department of Education			<u>462,344</u>		<u>455,330</u>	
FEDERAL EMERGENCY MANAGEMENT AGENCY						
<i>Passed Through Ohio Emergency Management Agency</i>						
Public Assistance Grant Program	83.544	DR-1453-OH	3,383		3,383	
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through Montgomery County Educational Service Center</i>						
CAFS Medicaid Assistance Program	93.778	N/A	16,436		16,436	
Total Federal Financial Assistance			<u>\$534,067</u>	<u>\$53,802</u>	<u>\$527,053</u>	<u>\$53,802</u>

The Notes to this Schedule are an integral part of this Schedule.

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – NUTRITION CLUSTER

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the United States Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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Auditor of State Betty Montgomery

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

Valley View Local School District
Montgomery County
64 Comstock Avenue
Germantown, Ohio 45327

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Valley View Local School District, Montgomery County, (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 7, 2004, wherein we noted the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of finding as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated July 7, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated July 7, 2004.

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

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

Betty Montgomery
Auditor of State

July 7, 2004



Auditor of State Betty Montgomery

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

Valley View Local School District
Montgomery County
64 Comstock Avenue
Germantown, Ohio 45327

To the Board of Education:

Compliance

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

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

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

Internal Control Over Compliance

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

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**Internal Control Over Compliance
(Continued)**

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

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

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

Betty Montgomery
Auditor of State

July 7, 2004

**VALLEY VIEW LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: Special Education Grants to States: CFDA# 84.027 Special Education Preschool Grant: CFDA# 84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2003-001

Ohio Rev. Code Section 117.38 requires GAAP basis entities must file unaudited financial reports with the Auditor of State's Office within 150 days of fiscal year end. Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfiled, not to exceed seven hundred fifty dollars. Further, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief financial officer.

The School's financial report for year ended June 30, 2003, was not filed with the Auditor of State until March 31, 2004.

The District should develop and implement procedures to ensure that the financial reports are prepared and filed timely, and the required notice is published to provide notice that the reports are available for public inspection. Additionally, timely reporting should provide improved information for financial decision making purposes.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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VALLEY VIEW LOCAL SCHOOL DISTRICT

MONTGOMERY 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
AUGUST 5, 2004**