

Valley Local School District

Scioto County

Single Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

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**Auditor of State
Betty Montgomery**

Board of Education
Valley Local School District
P. O. Box 888
Lucasville, Ohio 45648-0888

We have reviewed the *Independent Auditor's Report* of the Valley Local School District, Scioto County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 17, 2005

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Valley Local School District

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Valley Local School District (the District), Scioto County, as of and for the year ended June 30, 2004, 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 the 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, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2004, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 3 to the basic financial statements, the District implemented Governmental Accounting Standards Board (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*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
April 22, 2005

VALLEY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

As management of the Valley Local School District, we offer the readers of the School District's financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the notes to the basic financial statements to enhance their understanding of the School District's performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, "*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*," issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information of the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the School Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Financial Highlights

Net assets of governmental activities decreased \$596,280, which represents a 3 percent decrease from 2003

General revenues accounted for \$7,239,414 or 70 percent of all total revenues. Program specific revenues in the form of charges for services, sales, grants, interest, and contributions accounted for \$3,144,514 or 30 percent of total revenues of \$10,383,928.

The School District had \$10,980,208 in expenses related to governmental activities; only \$3,144,514 of these expenses were offset by program specific charges for services, sales, grants, interest, and contributions. General revenues (primarily grants, entitlements and property taxes) of \$7,239,414 were not adequate to provide for these programs.

Using the Basic Financial Statements

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Valley Local School District as a financial whole, an entire operating entity.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 School District's major funds with all other non-major funds presented in total in one column. The major funds for the Valley Local School District are the General Fund, the Bond Retirement Debt Service Fund, and the Classroom Facilities Capital Projects Fund.

VALLEY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during 2004?”

The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is 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.

These two statements report the School District's net assets and changes in those assets. The change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds.

Governmental Funds – Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at 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* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Fiduciary Funds – The School District's fiduciary fund is an agency fund. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

VALLEY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for 2004 and 2003:

(Table 1)
 Net Assets

	<u>Governmental Activities</u>		Increase
	<u>2004</u>	<u>2003</u>	(Decrease)
Assets			
Current Assets	\$6,077,616	\$8,949,120	(\$2,871,504)
Capital Assets	16,757,180	14,877,444	1,879,736
Total Assets	<u>22,834,796</u>	<u>23,826,564</u>	(991,768)
Liabilities			
Long-Term Liabilities	3,286,325	3,289,713	(3,388)
Other Liabilities	2,553,253	2,945,353	(392,100)
Total Liabilities	<u>5,839,578</u>	<u>6,235,066</u>	(395,488)
Net Assets			
Invested in Capital Assets, Net of Related Debt	14,487,164	12,447,126	2,040,038
Restricted	1,386,565	3,795,051	(2,408,486)
Unrestricted	1,121,489	1,349,321	(227,832)
Total Net Assets	<u>\$16,995,218</u>	<u>\$17,591,498</u>	(\$596,280)

Current assets, primarily cash and intergovernmental receivables, decreased and capital assets increased mainly due to the ongoing additions and renovations being performed on school buildings within the School District.

Total liabilities decreased \$395,488. Current liabilities decreased by \$392,100 due primarily to decreases in contracts and retainage payable related to the additions and renovations to school facilities nearing completion.

Invested in Capital Assets, Net of Related Debt for governmental activities increased by \$2,040,038, due to the net effect of the increase in capital assets (mostly construction in progress related to the additions and renovations to the school facilities) and the decrease in bonds payable and related accrued interest payable. Restricted Net Assets for governmental activities decreased by \$2,408,486 primarily due to the School District receiving and utilizing grant proceeds to make additions and renovations to school facilities. Unrestricted Net Assets for governmental activities decreased by \$227,832 primarily due to increased expenses relating to intergovernmental payables and compensated absences.

VALLEY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2, shows the highlights of the School District's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table uses the full accrual method of accounting.

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

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

Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years.

(Table 2)	
Change in Net Assets	
	Governmental Activities 2004
Revenues	
Program Revenues:	
Charges for Services and Sales	\$1,861,532
Operating Grants, Contributions and Interest	1,242,779
Capital Grants and Contributions	40,203
Total Program Revenues	3,144,514
General Revenues:	
Property Taxes	1,343,327
Grants and Entitlements not Restricted to Specific Programs	5,781,994
Contributions and Donations	2,977
Investment Earnings	53,339
Miscellaneous	57,777
Total General Revenues	7,239,414
Total Revenues	\$10,383,928
	(continued)

VALLEY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Change in Net Assets
(continued)

	Governmental Activities <u>2004</u>
Program Expenses	
Instruction:	
Regular	\$4,539,739
Special	1,198,328
Vocational	335,780
Support Services:	
Pupils	397,396
Instructional Staff	631,645
Board of Education	25,331
Administration	670,827
Fiscal	218,361
Operation and Maintenance of Plant	1,122,145
Pupil Transportation	586,331
Central	345,154
Operation of Non-Instructional Services	489,610
Extracurricular Activities	293,612
Intergovernmental	38,500
Interest and Fiscal Charges	87,449
Total Expenses	<u>10,980,208</u>
 Decrease in Net Assets	 <u><u>(\$596,280)</u></u>

Governmental Activities

Grants and Entitlements not Restricted to Specific Programs made up 56 percent of revenues for governmental activities of the Valley Local School District for fiscal year 2004. Property Tax revenue made up 13 percent of the total revenue for governmental activities for a total of 69 percent of all revenue coming from property taxes and grants and entitlements not restricted to specific programs.

Regular instruction comprises 41 percent of governmental program expenses. Support services expenses make up 36 percent of governmental expenses.

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

(Table 3)
 Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
	2004	2004
Instruction	\$6,073,847	\$3,673,999
Support Services	3,997,190	3,727,421
Operation of Non-Instructional Services	489,610	112,205
Extracurricular Activities	293,612	234,620
Intergovernmental	38,500	0
Interest and Fiscal Charges	87,449	87,449
Total Expenses	\$10,980,208	\$7,835,694

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,605,704 and expenditures of \$12,851,225. The net change in fund balance for the year was most significant in the Classroom Facilities Capital Projects Fund, a decrease of \$716,145 relating to capital outlay expenditures for the additions and renovations to school buildings.

General Fund - Budget Highlights

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

During the course of fiscal year 2004, the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund original and final budgeted amounts is listed on page 18, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

VALLEY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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For fiscal year 2004, the School District filed an amended certificate of estimated revenues which had estimated revenues equaling actual revenues. For the General Fund, final estimated revenues were \$8,527,318, with original estimated revenues of \$8,950,888, a difference of \$423,570. The difference was primarily due to a decrease in intergovernmental revenue which was the result of the elimination of parity aid and a slight reduction in state foundation basic aid.

At the end of fiscal year 2004, the School District amended its General Fund budget, (and all other funds' budgets) so that the final appropriations equaled actual expenditures for the fiscal year. This resulted in the General Fund's final appropriations decreasing \$412,828 over the original appropriations, a 4.3 percent decrease.

Capital Assets

At the end of fiscal year 2004 the School District had \$16,757,180 invested in land, construction in progress, land improvements, buildings and improvements, furniture, fixtures, and equipment, textbooks, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003:

(Table 4)
 Capital Assets at June 30
 (Net of Depreciation)

	Governmental Activities	
	2004	2003
Land	\$441,839	\$381,839
Construction in Progress	\$2,984,918	\$842,592
Land Improvements	535,292	536,187
Buildings and Improvements	11,709,495	12,097,883
Furniture, Fixtures and Equipment	963,983	938,018
Textbooks	0	0
Vehicles	121,653	80,925
Totals	\$16,757,180	\$14,877,444

Net Capital Assets increased from the prior year. The primary increase occurred in construction in progress due to additions and renovations of school facilities within the School District relating to the capital lease the School District entered into during fiscal year 2002.

For more information on capital assets, refer to Note 9 in the notes to the basic financial statements.

VALLEY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Debt

At June 30, 2004, the School District had \$1,394,304 General Obligation Bonds outstanding, of which \$160,000 is due within one year. The School District also had capital lease obligations outstanding of \$1,000,000, all of which is due in more than one year. Table 5 summarizes the outstanding debt:

(Table 5)
 Outstanding Debt, at Year End
 Governmental Activities

	2004	2003
2001 General Obligation Refunding Bonds	\$1,394,304	\$1,532,945
Capital Lease	1,000,000	1,000,000
Totals	\$2,394,304	\$2,532,945

On December 1, 2001, the District issued \$1,660,000 in General Obligation Bonds to advance refund \$1,660,000 of outstanding 1991 Classroom Facilities General Obligation Bonds with an interest rate of 7.08%. \$1,565,000 was issued as serial bonds with interest rates ranging from 2.05% to 4.00%. \$95,000 was issued as capital appreciation bonds. The capital appreciation bonds will mature in fiscal years 2012, 2013, and 2014. The maturity amount of the capital appreciation bonds is \$205,000 in fiscal year 2012, \$210,000 in fiscal year 2013, and \$130,000 in fiscal year 2014, for a total of \$545,000. For fiscal year 2004, the capital appreciation bonds were accreted \$21,359.

The total outstanding bond value as of fiscal year-end 2004 was \$1,394,304. The total bond value at final maturity will be \$2,110,000.

The School District has entered into a capitalized lease for building renovations and additions. As of June 30, 2004, all of the lease proceeds except \$74,984 had been spent toward the project.

The School District's overall legal debt margin was \$4,117,387 with an unvoted debt margin of \$54,547 at June 30, 2004.

For more information on the capital lease and debt, refer to Notes 14 and 15 in the notes to the basic financial statements.

VALLEY LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Current Issues

The Valley Local School District consists of three buildings: Valley Elementary, Valley Middle, and Valley High School. The Elementary and High School buildings were constructed with funds from a building levy passed in 1990 with occupancy in 1993. The old High School building was renovated to become Valley Middle School with renovations complete in 1995. During fiscal year 2004, additional classrooms were built at the Middle School through aid provided by the Ohio School Facilities Commission (OSFC). The district was able to provide the required local contribution without passing an additional tax levy.

During fiscal year 2002, the district entered into a contract with Quest Turf, LLC in the amount of \$601,547 to replace the grass turf on the football field with an artificial turf. Although the district has used the field for the past three seasons, several issues remain with the quality of the installation. The district is currently working with Quest Turf to resolve these issues.

According to the data from the Ohio Department of Education, the school district spent \$7,765 per pupil (all funds) during fiscal year 2004, which is lower than the statewide average of \$8,754. The largest area of expenditure was direct instruction (56.9).

Contacting the School District's Financial Management

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

VALLEY LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$4,081,091
Cash and Cash Equivalents With Escrow Agent	124,226
Investments in Segregated Accounts	22,094
Investments With Escrow Agent	152,150
Materials and Supplies Inventory	61,005
Accounts Receivable	10,905
Intergovernmental Receivable	162,722
Prepaid Items	1,277
Taxes Receivable	1,462,146
Capital Assets:	
Land	441,839
Construction in Progress	2,984,918
Depreciable Capital Assets, Net	<u>13,330,423</u>
<i>Total Assets</i>	<u>22,834,796</u>
<u>Liabilities:</u>	
Accounts Payable	25,612
Accrued Wages and Benefits Payable	863,213
Intergovernmental Payable	301,944
Accrued Interest Payable	3,749
Undistributed Monies	809
Retainage Payable	66,544
Deferred Revenue	1,291,382
Long-Term Liabilities:	
Due Within One Year	220,064
Due Within More Than One Year	<u>3,066,261</u>
<i>Total Liabilities</i>	<u>5,839,578</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	14,487,164
Restricted for:	
Debt Service	621,301
Future Debt Service	152,150
Capital Projects	262,947
Other Purposes	314,115
Set Asides	36,052
Unrestricted	<u>1,121,489</u>
<i>Total Net Assets</i>	<u><u>\$16,995,218</u></u>

See accompanying notes to the basic financial statements

VALLEY LOCAL SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$4,539,739	\$1,056,322	\$86,819	\$27,225	(\$3,369,373)
Special	1,198,328	529,461	668,579	0	(288)
Vocational	335,780	0	31,442	0	(304,338)
Support Services:					
Pupils	397,396	0	7,331	0	(390,065)
Instructional Staff	631,645	0	117,748	0	(513,897)
Board of Education	25,331	0	0	0	(25,331)
Administration	670,827	0	17,968	0	(652,859)
Fiscal	218,361	0	0	0	(218,361)
Operation and Maintenance of Plant	1,122,145	1,175	0	0	(1,120,970)
Pupil Transportation	586,331	0	9,725	12,978	(563,628)
Central	345,154	93,434	9,410	0	(242,310)
Operation of Non-Instructional Services	489,610	122,148	255,257	0	(112,205)
Extracurricular Activities	293,612	58,992	0	0	(234,620)
Intergovernmental	38,500	0	38,500	0	0
Interest and Fiscal Charges	87,449	0	0	0	(87,449)
Total Governmental Activities	\$10,980,208	\$1,861,532	\$1,242,779	\$40,203	(7,835,694)
General Revenues					
Property Taxes Levied for:					
					1,048,398
					272,438
					22,491
Grants and Entitlements not Restricted					
					5,781,994
to Specific Programs					
					2,977
Contributions and Donations					
					53,339
Investment Earnings					
					57,777
Miscellaneous					
					57,777
					<u>7,239,414</u>
Total General Revenues					
					(596,280)
Change in Net Assets					
					17,591,498
Net Assets Beginning of Year - See Note 3					
					<u>16,995,218</u>
Net Assets End of Year					

See accompanying notes to the basic financial statements

VALLEY LOCAL SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2004

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,727,041	\$437,837	\$329,697	\$537,486	\$4,032,061
Cash and Cash Equivalents with Escrow Agent	0	0	124,226	0	124,226
Investments in Segregated Accounts	22,094	0	0	0	22,094
Investments with Escrow Agents	0	152,150	0	0	152,150
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	49,030	0	0	0	49,030
Receivables:					
Property Taxes	1,145,784	292,293	0	24,069	1,462,146
Accounts	10,905	0	0	0	10,905
Intergovernmental	0	0	0	162,722	162,722
Interfund	85,561	0	0	0	85,561
Prepaid Items	1,277	0	0	0	1,277
Materials and Supplies Inventory	56,948	0	0	4,057	61,005
Total Assets	\$4,098,640	\$882,280	\$453,923	\$728,334	\$6,163,177
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities:</u>					
Accounts Payable	\$24,987	\$0	\$0	\$625	\$25,612
Accrued Wages and Benefits Payable	770,739	0	0	92,474	863,213
Intergovernmental Payable	196,183	0	0	22,473	218,656
Interfund Payable	0	0	0	85,561	85,561
Retainage Payable	0	0	49,242	17,302	66,544
Undistributed Monies	809	0	0	0	809
Deferred Revenue	1,100,024	279,786	0	105,036	1,484,846
Total Liabilities	2,092,742	279,786	49,242	323,471	2,745,241
<u>Fund Balances:</u>					
Reserved for Encumbrances	533,067	0	303,328	104,265	940,660
Reserved for Future Debt Service	0	152,150	0	0	152,150
Reserved for Property Taxes	45,760	12,507	0	1,004	59,271
Reserved for Budget Stabilization	36,052	0	0	0	36,052
Reserved for Bus Purchases	12,978	0	0	0	12,978
Reserved for Unclaimed Monies	809	0	0	0	809
Unreserved, Designated:					
Designated for Budget Stabilization	56,517	0	0	0	56,517
Unreserved, Undesignated, Reported in:					
General Fund	1,320,715	0	0	0	1,320,715
Special Revenue Funds	0	0	0	316,452	316,452
Debt Service Fund	0	437,837	0	0	437,837
Capital Projects Funds (Deficit)	0	0	101,353	(16,858)	84,495
Total Fund Balances	2,005,898	602,494	404,681	404,863	3,417,936
Total Liabilities and Fund Balances	\$4,098,640	\$882,280	\$453,923	\$728,334	\$6,163,177

See accompanying notes to the basic financial statements

VALLEY LOCAL SCHOOL DISTRICT
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004

Total Governmental Fund Balances \$3,417,936

*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. These assets consist of:

Land	441,839	
Construction in progress	2,984,918	
Other capital assets	22,397,619	
Accumulated depreciation	(9,067,196)	
Total capital assets	16,757,180	16,757,180

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Delinquent property taxes	111,493	
Intergovernmental	81,971	
	193,464	193,464

Intergovernmental Payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (83,288)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(1,394,304)	
Accrued interest on bonds	(3,749)	
Capital leases	(1,000,000)	
Compensated absences	(892,021)	
Total liabilities	(3,290,074)	(3,290,074)

Net Assets of Governmental Activities \$16,995,218

See accompanying notes to the basic financial statements

VALLEY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$1,029,015	\$268,353	\$0	\$22,111	\$1,319,479
Intergovernmental	6,180,709	35,285	1,238,875	1,384,347	8,839,216
Interest	35,642	6,311	8,611	3,210	53,774
Tuition and Fees	1,055,021	0	0	0	1,055,021
Rent	1,175	0	0	0	1,175
Extracurricular Activities	89,552	0	0	0	89,552
Contributions and Donations	3,387	0	0	0	3,387
Charges for Services and Sales	64,175	0	0	122,148	186,323
Miscellaneous	57,777	0	0	0	57,777
Total Revenues	8,516,453	309,949	1,247,486	1,531,816	11,605,704
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	3,720,890	0	44,537	596,922	4,362,349
Special	774,878	0	0	367,907	1,142,785
Vocational	319,683	0	0	0	319,683
Support Services:					
Pupils	374,391	0	0	2,413	376,804
Instructional Staff	432,149	0	0	117,669	549,818
Board of Education	31,448	0	0	0	31,448
Administration	599,593	0	0	20,497	620,090
Fiscal	188,047	6,952	0	884	195,883
Operation and Maintenance of Plant	864,185	0	6,177	2,995	873,357
Pupil Transportation	612,033	0	0	0	612,033
Central	295,612	0	4,380	8,785	308,777
Operation of Non-Instructional Services - Food Service	0	0	0	456,217	456,217
Extracurricular Activities	220,540	0	0	0	220,540
Capital Outlay	182,133	0	1,908,537	425,861	2,516,531
Debt Service:					
Principal Retirement	0	160,000	0	0	160,000
Interest and Fiscal Charges	0	66,410	0	0	66,410
Intergovernmental	0	0	0	38,500	38,500
Total Expenditures	8,615,582	233,362	1,963,631	2,038,650	12,851,225
Excess of Revenues Over (Under) Expenditures	(99,129)	76,587	(716,145)	(506,834)	(1,245,521)
<u>Other Financing Sources (Uses):</u>					
Transfers In	0	0	0	25,000	25,000
Transfers Out	(25,000)	0	0	0	(25,000)
Total Other Financing Sources (Uses)	(25,000)	0	0	25,000	0
Net Change in Fund Balances	(124,129)	76,587	(716,145)	(481,834)	(1,245,521)
Fund Balances Beginning of Year - Restated (Note 3)	2,130,027	525,907	1,120,826	886,697	4,663,457
Fund Balances End of Year	\$2,005,898	\$602,494	\$404,681	\$404,863	\$3,417,936

See accompanying notes to the basic financial statements

VALLEY LOCAL SCHOOL DISTRICT
 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, 2004

Net Change in Fund Balances - Total Governmental Funds (\$1,245,521)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	458,399	
Construction in progress additions	2,142,326	
Depreciation expense	(720,989)	
Excess of capital outlay over depreciation expense		1,879,736

Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent property taxes	23,848	
Intergovernmental	(1,245,624)	
		(1,221,776)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond payments		160,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences payable	(135,253)	
Decrease in accrued interest payable	320	
Accretion on bonds	(21,359)	
Increase in intergovernmental payable	(12,427)	
Total (increase)/decrease		(168,719)

Change in Net Assets of Governmental Activities (\$596,280)

See accompanying notes to the basic financial statements

VALLEY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$1,177,826	\$1,042,337	\$1,042,337	\$0
Intergovernmental	6,422,327	6,180,709	6,180,709	0
Interest	37,035	35,642	35,642	0
Tuition and Fees	1,096,264	1,055,021	1,055,021	0
Rent	1,533	1,475	1,475	0
Extracurricular Activities	92,928	89,432	89,432	0
Contributions and Donations	426	410	410	0
Customer Sales and Services	69,879	67,250	67,250	0
Miscellaneous	52,670	55,042	55,042	0
<i>Total Revenues</i>	8,950,888	8,527,318	8,527,318	0
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	4,167,540	3,855,982	3,855,982	0
Special	729,678	774,182	774,182	0
Vocational	314,066	319,585	319,585	0
Other	34,805	24,003	24,003	0
Support Services:				
Pupils	357,160	370,281	370,281	0
Instructional Staff	412,281	429,086	429,086	0
Board of Education	69,183	33,116	33,116	0
Administration	656,480	598,536	598,536	0
Fiscal	191,077	190,421	190,421	0
Operation and Maintenance of Plant	936,163	883,499	883,499	0
Pupil Transportation	625,483	607,696	607,696	0
Central	230,744	300,185	300,185	0
Extracurricular Activities	131,912	227,412	227,412	0
Capital Outlay	732,382	562,142	562,142	0
<i>Total Expenditures</i>	9,588,954	9,176,126	9,176,126	0
Excess of Revenues Under Expenditures	(638,066)	(648,808)	(648,808)	0
<u>Other Financing Uses:</u>				
Transfers Out	279,744	(25,398)	(25,398)	0
Advances Out	0	(85,561)	(85,561)	0
<i>Total Other Financing Uses</i>	279,744	(110,959)	(110,959)	0
Net Change in Fund Balance	(358,322)	(759,767)	(759,767)	0
Fund Balances at Beginning of Year	2,218,177	2,218,177	2,218,177	0
Prior Year Encumbrances Appropriated	759,591	759,591	759,591	0
Fund Balances at End of Year	\$2,619,446	\$2,218,001	\$2,218,001	\$0

See accompanying notes to the basic financial statements

VALLEY LOCAL SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2004

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$19,091</u>
<u>Liabilities:</u>	
Undistributed Monies	<u>\$19,091</u>

See accompanying notes to the basic financial statements

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1888 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 48 square miles. It is located in Scioto County, and includes all of Valley Township and portions of Jefferson, Rush, Madison, and Morgan Townships. It is staffed by 56 non-certificated employees, 93 certificated full-time teaching personnel and 6 administrative employees who provide services to 1,091 students and other community members. The School District currently operates three instructional buildings and one garage.

Reporting Entity:

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

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

The School District participates in four organizations, two of which are defined as jointly governed organizations, one as a public entity shared risk pool, and one as an insurance purchasing pool. These organizations are the South Central Ohio Computer Association (SCOCA), the Pilasco-Ross Special Education Regional Research Center, the Scioto County Schools Council, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 18, 19 and 20 to the basic financial statements.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no business-type activities.

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

Fund Financial Statements

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

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

Governmental Funds:

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

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

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

Classroom Facilities Fund - To account for monies received and expended by the School District in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

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

Fiduciary Funds:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

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.

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 and the financial statements of the fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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. “Measurable” means the amount of the transaction can be determined, and “available” means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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, 2004, but which were levied to finance fiscal year 2005 operations, 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.

Expenses/Expenditures

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

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

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

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

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

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. The School District holds a donation of common stock, which is shown on the financial statements as "Investments in Segregated Accounts". During fiscal year 2004, the School District held money to be used for future renovations to the buildings of the School District as well as amounts held in escrow for retainage payable. The monies are presented as "Cash and Cash Equivalents with Escrow Agent" on the financial statements.

During fiscal year 2004, the District's investments were limited to the State Treasury Assets Reserve of Ohio (STAR Ohio), commercial paper, and donated common stock. Investments are reported at fair value, which is based on quoted market prices.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$35,642 which includes \$12,169 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of materials and supplies held for consumption and donated and purchased food.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

J. Capital Assets

All capital assets of the School District are general capital assets. General capital assets usually 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 LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not 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 capitalized.

All reported capital assets except land and construction in progress 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>	<u>Estimated Lives</u>
Land Improvements	10 - 20 years
Buildings and Improvements	5 - 50 years
Furniture, Fixtures and Equipment	10 - 20 years
Textbooks	5 years
Vehicles	3 - 6 years

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

L. 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, 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 in the current fiscal year. Capital leases and bonds payable that will be paid from governmental funds are recognized as an expenditure and liability in the governmental fund financial statements when due.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Interfund Transactions

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. Reimbursements from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

N. Restricted Assets

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

O. Fund Balance Reserves/Designations

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. Under Ohio law, unclaimed monies are not available for appropriation until they have remained unclaimed for five years. A designation of fund balance has been made for amounts set aside for budget stabilization in excess of the amount required by statute.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service, music and athletic programs, and federal and state grants restricted to expenditures for specified purposes.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Q. Estimates

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the School 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. 39, “*Determining Whether Certain Organizations are Component Units*”, GASB Statement No. 41, “*Budgetary Comparison Schedules - Perspective Differences.*”, and GASB Interpretation No. 6, “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*”.

GASB Statement No. 34 creates new basic financial statements for reporting on the School District’s financial activities. The 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.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management’s 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 disclosure.

GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, “*The Financial Reporting Entity*”. The implementation of this new statement had no effect on the School District’s financial statements for fiscal year 2004.

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the General and Major Special Revenue Funds. The implementation of this statement had no effect on the presentation of budgetary statements by the School District for fiscal year 2004.

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.

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES (continued)

The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting. The implementation of these statements, the reclassification of the Food Service Fund from an enterprise fund to a special revenue fund, and correction of errors related to intergovernmental payables and a fund that was not accounted for had the following effect on the fund balances of major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances,					
June 30, 2003	\$2,119,753	\$525,907	\$1,120,826	\$816,279	\$4,582,765
Correction of Errors	0	0	0	6,773	6,773
Interpretation No. 6					
Adjustment	10,274	0	0	0	10,274
Fund Reclassification	0	0	0	83,117	83,117
Adjustments to Fund					
Reclassified	0	0	0	(19,472)	(19,472)
Restated Fund Balances,					
June 30, 2003	<u>\$2,130,027</u>	<u>\$525,907</u>	<u>\$1,120,826</u>	<u>\$886,697</u>	4,663,457

GASB Statement No. 34 Adjustments:

Deferred Assets:

 Intergovernmental Receivables 1,327,595

 Delinquent Property Taxes 87,645

Capital Assets 14,877,444

Accrued Interest Payable (4,069)

Intergovernmental Payables (70,861)

Long Term Liabilities:

 Compensated Absences Payable (756,768)

 Bonds Payable (1,532,945)

 Capital Leases Payable (1,000,000)

Governmental Activities Net Assets, June 30, 2003 \$17,591,498

	<u>Food Service Enterprise Fund</u>
Fund Equity, June 30, 2003	\$83,117
Fund Reclassification	(83,117)
Restated Fund Equity, June 30, 2003	<u>\$0</u>

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 4 – ACCOUNTABILITY

At June 30, 2004, the Disadvantaged Pupil Impact Aid, Ohio Reads, Summer Intervention, Title VI-B, Title I, Title IV, and Title II-A Special Revenue Funds had deficit fund balances of \$4,923, \$21, \$1,611, \$15,990, \$62,474, \$1,001 and \$7,053, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$124,129)
Adjustments:	
Revenue Accruals	10,865
Expenditure Accruals	(2,474)
Transfers	(398)
Advances	(85,561)
Encumbrances	(558,070)
Budget Basis	<u><u>(\$759,767)</u></u>

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$38,668 and the bank balance was \$72,718. The entire bank balance was covered by federal depository insurance.

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

	Category 2	Category 3	Unclassified	Carrying/Fair Value
STAR Ohio	\$0	\$0	\$4,185,740	\$4,185,740
Donated Common Stock	22,094	0	0	22,094
General Electric Capital Corporation Commercial Paper	0	152,150	0	152,150
Total Investments	\$22,094	\$152,150	\$4,185,740	\$4,359,984

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, “*Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting.*” A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$4,224,408	\$174,244
Investments:		
STAROhio	(4,185,740)	4,185,740
GASB Statement No. 3	\$38,668	\$4,359,984

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES (continued)

Public utility property tax revenue received in calendar year 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2003, were levied after April 1, 2003, and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Scioto County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004, was \$45,760 in the General Fund, \$1,004 in the Classroom Facilities Special Revenue Fund, and \$12,507 in the Bond Retirement Fund. The amount available as an advance at June 30, 2003 was \$59,082 in the General Fund, \$1,298 in the Classroom Facilities Special Revenue Fund, and \$16,236 in the Bond Retirement Fund.

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

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES (continued)

The assessed values upon which fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$44,045,580	82.41%	\$45,067,770	82.63%
Public Utility	57,190	0.10%	62,670	0.11%
Tangible Personal Property	9,346,950	17.49%	9,416,196	17.26%
Total Assessed Value	<u>\$53,449,720</u>	<u>100.00%</u>	<u>\$54,546,636</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$31.21		\$31.21	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, accounts, intergovernmental grants, and interfund amounts. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities:	
Food Service	\$20,993
Student Intervention	1,614
Title VI-B	62,716
Title I	45,182
Title V	6,957
Title IV	1,741
Title II-A	23,519
Total Intergovernmental Receivables	<u>\$162,722</u>

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/03	Additions	Deductions	Balance at 6/30/04
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$381,839	\$60,000	\$0	\$441,839
Construction in Progress	842,592	2,142,326	0	2,984,918
Total Capital Assets Not Being Depreciated	<u>1,224,431</u>	<u>2,202,326</u>	<u>0</u>	<u>3,426,757</u>
Capital Assets Being Depreciated:				
Land Improvements	609,259	30,326	0	639,585
Buildings and Improvements	17,799,614	89,727	0	17,889,341
Furniture, Fixtures and Equipment	2,403,416	178,297	(134,666)	2,447,047
Textbooks	657,294	0	0	657,294
Vehicles	665,503	100,049	(1,200)	764,352
Totals at Historical Cost	<u>22,135,086</u>	<u>398,399</u>	<u>(135,866)</u>	<u>22,397,619</u>
Less Accumulated Depreciation:				
Land Improvements	(73,072)	(31,221)	0	(104,293)
Buildings and Improvements	(5,701,731)	(478,115)	0	(6,179,846)
Furniture, Fixtures and Equipment	(1,465,398)	(152,332)	134,666	(1,483,064)
Textbooks	(657,294)	0	0	(657,294)
Vehicles	(584,578)	(59,321)	1,200	(642,699)
Total Accumulated Depreciation	<u>(8,482,073)</u>	<u>(720,989) *</u>	<u>135,866</u>	<u>(9,067,196)</u>
Total Capital Assets Being Depreciated, Net	<u>13,653,013</u>	<u>(322,590)</u>	<u>0</u>	<u>13,330,423</u>
Governmental Activities Capital Assets, Net	<u>\$14,877,444</u>	<u>\$1,879,736</u>	<u>\$0</u>	<u>\$16,757,180</u>

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 9 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$271,672
Special	44,946
Vocational	12,783
Support Services:	
Pupils	19,719
Instructional Staff	75,874
Administration	32,408
Fiscal	8,308
Operation and Maintenance of Plant	45,001
Pupil Transportation	59,933
Central	33,558
Operation of Non-Instructional Services	32,323
Extracurricular Activities	84,464
Total Depreciation Expense	<u><u>\$720,989</u></u>

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Ohio Schools Risk Sharing Authority for property and fleet insurance, inland marine coverage, and general liability insurance. Insurance coverage provided includes the following:

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 - RISK MANAGEMENT (continued)

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

The School District is a member of the Scioto County Schools Council, a public entity shared risk pool (Note 19), offering medical and dental insurance to the employees of participating school districts. Monthly premiums are paid to the South Central Ohio Educational Service Center as fiscal agent, who in turn pays the claims on the School District's behalf. The Council is responsible for the management and operations of the program. Upon termination from the Council, for any reason, the School District shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the plan due up to the date of termination plus extended benefits, if any, provided under the plan. All claims and expenses shall be paid from the funds of the Council.

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the School District pays an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$124,284, \$117,025, and \$68,131, respectively; 49.76 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$62,441 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System of Ohio

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

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

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002, were \$575,500, \$537,307, and \$368,770, respectively; 80.45 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$473 made by the School District and \$450 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2004, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$44,269 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$86,309.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for classified employees and certified employees.

B. Life Insurance

The School District provides life insurance to employees through Sun Life Assurance Company.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 – CAPITAL LEASES - LESSEE DISCLOSURE

The capital lease obligation relates to a renovation project involving the buildings of the School District. Five more classrooms are being added to the middle school along with other renovations to the building. The elementary and high school buildings are also being renovated. At the time the School District entered into this lease, the renovations had not yet begun. As part of the agreement, Banc One Leasing Corporation, as lessor, deposited \$1,000,000 in the School District's name, with an escrow agent for the renovations to the buildings. Amounts will be paid to contractors by the School District as the work progresses. The School District will then submit the invoices to the agent for reimbursement. \$74,984 is still held by the escrow agent. The School District makes annual interest payments to the lessor and annual sinking fund payments to the escrow agent. The escrow agent is investing the School District's deposits and has guaranteed a return on the investments to meet the School District's lease liability. Banc One will be repaid in fiscal year 2016 when the \$1,000,000 lease payment is due. There are mandatory deposits required to be made with the escrow agent in order to ensure that the lease is paid timely. The School District is current on the deposits.

The assets acquired through capital leases are presented as construction in progress in the amount of \$2,984,918 as of June 30, 2004 (see Note 9).

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004:

Fiscal Year Ending June 30,	Total Payments
2005	\$19,500
2006	19,500
2007	19,500
2008	19,500
2009	19,500
2010-2014	97,500
2015-2016	1,039,000
Total	1,234,000
Less: Amount Representing Interest	(234,000)
Present Value of Net Minimum Lease Payments	\$1,000,000

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 – CAPITAL LEASES - LESSEE DISCLOSURE

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Sinking Fund Payments</u>	<u>Total Lease Payment</u>
2005	\$0	\$19,500	\$71,429	\$90,929
2006	0	19,500	71,429	90,929
2007	0	19,500	71,429	90,929
2008	0	19,500	71,429	90,929
2009	0	19,500	71,429	90,929
2010-2014	0	97,500	178,881	276,381
2015-2016	1,000,000	39,000	0	1,039,000
	<u>\$1,000,000</u>	<u>\$234,000</u>	<u>\$536,026</u>	<u>\$1,770,026</u>

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	<u>Restated Amount Outstanding 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/04</u>	<u>Amount Due in One Year</u>
<u>General Obligation Bonds:</u>					
2001 Obligation Refunding Bonds 2001 2.05 - 4.00 % Serial Bonds	\$1,410,000	\$0	\$160,000	\$1,250,000	\$160,000
Capital Appreciation Bonds	95,000	0	0	95,000	0
Accretion on Capital Appreciation Bonds	27,945	21,359	0	49,304	0
<u>Other Long-Term Obligations:</u>					
Capital Lease	1,000,000	0	0	1,000,000	0
Compensated Absences	756,768	179,532	44,279	892,021	60,064
Total Long-Term Obligations	<u>\$3,289,713</u>	<u>\$200,891</u>	<u>\$204,279</u>	<u>\$3,286,325</u>	<u>\$220,064</u>

On December 1, 2001, the District issued \$1,660,000 in General Obligation Bonds to advance refund \$1,660,000 of outstanding 1991 Classroom Facilities General Obligation Bonds with an interest rate of 7.08%. \$1,565,000 was issued as serial bonds with interest rates ranging from 2.05% to 4.00%. \$95,000 was issued as capital appreciation bonds. The capital appreciation bonds will mature in fiscal years 2012, 2013, and 2014. The maturity amount of the capital appreciation bonds is \$205,000 in fiscal year 2012, \$210,000 in fiscal year 2013, and \$130,000 in fiscal year 2014, for a total of \$545,000. For fiscal year 2004, the capital appreciation bonds were accreted \$21,359.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 15 - LONG-TERM OBLIGATIONS (continued)

In fiscal year 2002, the District received proceeds of \$1,889,756, which included a premium of \$229,756. \$1,821,923 of the proceeds (after payment of \$69,295 in underwriting fees, insurance and other issuance costs) was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Classroom Facilities General Obligation Bonds. As a result, the 1991 Classroom Facilities General Obligation Bonds are considered to be defeased and the liability for these bonds has been removed from the financial statements. As of June 30, 2004, the 1991 bond issue has been fully paid.

Compensated absences will be paid from the General Fund and the Food Service, Title VI-B, Title I, and Title II-A Special Revenue Funds.

The School District's overall legal debt margin was \$4,117,387 with an unvoted debt margin of \$54,547 at June 30, 2004.

Principal and interest requirements to retire the Permanent Improvement Levy Anticipation Notes outstanding at June 30, 2004, are as follows:

Fiscal year Ending June 30,	Serial Bonds Principal	Serial Bonds Interest	Capital Appreciation Principal	Capital Appreciation Interest	Total
2005	\$160,000	\$42,750	\$0	\$0	\$202,750
2006	170,000	37,833	0	0	207,833
2007	170,000	32,223	0	0	202,223
2008	175,000	26,053	0	0	201,053
2009	185,000	35,008	0	0	220,008
2010-2014	390,000	0	95,000	450,000	935,000
Total	<u>\$1,250,000</u>	<u>\$173,867</u>	<u>\$95,000</u>	<u>\$450,000</u>	<u>\$1,968,867</u>

NOTE 16 – INTERFUND ACTIVITY

A. Interfund Receivables/Payables

As of June 30, 2004, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Receivable
	<u>General</u>
Payable	
All Other	
Nonmajor Funds	<u>\$85,561</u>

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 16 – INTERFUND ACTIVITY (continued)

General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Advancing monies to other funds is necessary due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund will use these restricted monies to reimburse the General Fund for the initial advance.

B. Interfund Transfers

Transfers made during the year ended June 30, 2004, were as follows:

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

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

NOTE 17 - CONTRACTUAL COMMITMENTS

As of June 30, 2004, the School District had the following contractual purchase commitments:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance 6/30/04</u>
J & H Reinforcing	\$1,285,309	\$1,273,360	\$11,949
General Heating and Air	394,025	359,820	34,205
Flow Masters, Inc.	137,690	134,542	3,148
Brush Contractors	1,113,291	1,044,174	69,117
Quest Turf LLC	601,547	173,022	428,525
Total	<u>\$3,531,862</u>	<u>\$2,984,918</u>	<u>\$546,944</u>

VALLEY LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. South Central Ohio Computer Association

The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Pickaway, Gallia, Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$11,533 during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

B. Pilasco-Ross Special Education Regional Resource Center

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

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

NOTE 19 - PUBLIC ENTITY SHARED RISK POOL

Scioto County Schools Council

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 19 - PUBLIC ENTITY SHARED RISK POOL (Continued)

The Council views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center, 411 Court Street, Portsmouth, Ohio 45662.

NOTE 20 - INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

NOTE 21 - SET-ASIDE CALCULATIONS

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

For the fiscal year ended June 30, 2004, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies refunded from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	\$0	\$0	\$36,052
Current Year Set-aside Requirement	174,521	174,521	0
Current Year Offsets	0	(25,230)	0
Qualifying Disbursements	(328,870)	(444,349)	0
Totals	<u>(\$154,349)</u>	<u>(\$295,058)</u>	<u>\$36,052</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>	<u>\$36,052</u>

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 22 – STATE SCHOOL FUNDING DECISION

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

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

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

NOTE 23 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

The School District is not party to any legal proceedings.

Valley Local School District
Scioto County

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
Food Donation	NA	10.550	\$0	\$34,575	\$0	\$34,575
School Breakfast Program	05PU	10.553	55,466	0	55,466	0
National School Lunch	LLP4	10.555	156,677	0	156,677	0
Total United States Department of Agriculture - Nutrition Cluster			212,143	34,575	212,143	34,575
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Title I Grants to Local Education Agencies	C1S1	84.010	282,585	0	305,452	0
Special Education Grants to States	6BSF	84.027	127,552	0	157,369	0
Safe & Drug Free Schools and Communities - State Grants	DRS1	84.186	6,855	0	8,596	0
School Grants for Innovative Programs	C2S1	84.298	3,439	0	3,459	0
Education Technology State Grants	TJS1	84.318	7,992	0	7,260	0
Rural Education	RUS1	84.358	3,719	0	3,818	0
Improving Teacher Quality State Grants	TRS1	84.367	62,647	0	75,461	0
Total United States Department of Education			494,789	0	561,415	0
Federal Emergency Management Administration						
<i>Direct from the Federal Government</i>						
Public Assistance Grants	N/A	83.544	0	0	2,995	0
Total Federal Emergency Management Administration			0	0	2,995	0
Total Federal Financial Assistance			<u>\$706,932</u>	<u>\$34,575</u>	<u>\$776,553</u>	<u>\$34,575</u>

N/A - Not Available

See accompanying notes to the Schedule of Federal Awards Expenditures

Valley Local School District
Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTIONS

Non monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

BALESTRA, HARR & SCHERER, CPAs, INC.

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Ohio Society of Certified Public Accountants

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Local School District, Scioto County, Ohio (the District), as of and for the year ended June 30, 2004 which collectively comprise the District's basic financial statements and have issued our report thereon dated April 22, 2005, wherein we noted the District adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated April 22, 2005.

Valley Local School District
Scioto County

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

Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
April 22, 2005

BALESTRA, HARR & SCHERER, CPAs, INC.

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

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

Compliance

We have audited the compliance of the Valley Local School District (the 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, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

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

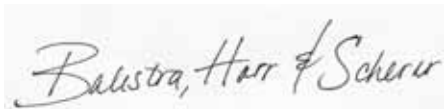
Valley Local School District
Scioto County

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

Page 2

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

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



Balestra, Harr & Scherer, CPAs, Inc.
April 22, 2005

**Valley Local School District
Scioto County**

**Schedule of Findings and Questioned Costs
OMB CIRCULAR A -133 Section .505
June 30, 2004**

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

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAAS
--

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None.



**Auditor of State
Betty Montgomery**

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**VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 30, 2005**