



JIM PETRO
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STATE OF OHIO



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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet - All Fund Types and Account Groups.....	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types.....	9
Combined Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual (Budget Basis) - All Governmental Fund Types.....	10
Statement of Revenues, Expenses and Changes in Fund Equity - Enterprise Fund.....	12
Statement of Revenues, Expenses and Changes in Fund Equity Budget and Actual (Budget Basis) – Enterprise Fund	13
Statement of Cash Flows – Enterprise Fund.....	14
Notes to the General Purpose Financial Statements	15
Schedule of Federal Awards Receipts and Expenditures	45
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	46
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	47
Report of Independent Accountants on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	49
Schedule of Findings - <i>OMB Circular A-133 §.505</i>	51
Corrective Action Plan - <i>OMB Circular A-133 §.315(c)</i>	53

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Valley Local School District, Scioto County, Ohio (the School District), as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Valley Local School District, Scioto County, as of June 30, 2002 and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2002, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

December 20, 2002

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VALLEY LOCAL SCHOOL DISTRICT
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2002

GOVERNMENTAL FUND TYPES

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<u>Assets and Other Debits:</u>				
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$2,668,132	\$235,722	\$440,613	\$557,096
Cash and Cash Equivalents with Fiscal Agents	0	0	0	1,008,621
Investments in Segregated Accounts	18,940	0	0	0
Receivables:				
Taxes	1,071,707	22,850	247,043	0
Accounts	68,921	0	0	0
Intergovernmental	0	1,440	0	1,205,517
Materials and Supplies Inventory	72,809	0	0	0
Inventory Held for Resale	0	0	0	0
Prepaid Items	14,977	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	51,742	0	0	0
Fixed Assets (Net of Accumulated Depreciation)	0	0	0	0
<u>Other Debits:</u>				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Total Assets and Other Debits	<u>\$3,967,228</u>	<u>\$260,012</u>	<u>\$687,656</u>	<u>\$2,771,234</u>

<i>PROPRIETARY FUND TYPE</i>	<i>FIDUCIARY FUND TYPE</i>	<i>ACCOUNT GROUPS</i>		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$90,752	\$27,551	\$0	\$0	\$4,019,866
0	0	0	0	1,008,621
0	0	0	0	18,940
0	0	0	0	1,341,600
0	0	0	0	68,921
19,346	0	0	0	1,226,303
414	0	0	0	73,223
3,064	0	0	0	3,064
0	0	0	0	14,977
0	0	0	0	51,742
44,918	0	14,294,566	0	14,339,484
0	0	0	471,732	471,732
0	0	0	2,885,278	2,885,278
<u>\$158,494</u>	<u>\$27,551</u>	<u>\$14,294,566</u>	<u>\$3,357,010</u>	<u>\$25,523,751</u>

(Continued)

VALLEY LOCAL SCHOOL DISTRICT
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2002
 (Continued)

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
<u>Liabilities,</u>				
<u>Fund Equity and Other Credits:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$48,914	\$489	\$0	\$3,582
Contracts Payable	0	0	0	5,709
Accrued Wages and Benefits	752,127	65,647	0	0
Compensated Absences Payable	8,093	0	0	0
Intergovernmental Payable	150,137	19,073	0	0
Deferred Revenue	1,001,279	21,796	215,924	1,205,517
Undistributed Monies	809	0	0	0
Capital Leases Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	1,961,359	107,005	215,924	1,214,808
<u>Fund Equity and Other Credits:</u>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	313,998	2,684	0	75,491
Reserved for Property Taxes	113,218	2,494	31,119	0
Reserved for Budget Stabilization	36,052	0	0	0
Reserved for Bus Purchases	15,690	0	0	0
Reserved for Unclaimed Monies	809	0	0	0
Unreserved:				
Designated for Budget Stabilization	56,517	0	0	0
Undesignated	1,469,585	147,829	440,613	1,480,935
Total Fund Equity and Other Credits	2,005,869	153,007	471,732	1,556,426
Total Liabilities, Fund Equity and Other Credits	\$3,967,228	\$260,012	\$687,656	\$2,771,234

See accompanying notes to the general purpose financial statements

<i>PROPRIETARY FUND TYPE</i>	<i>FIDUCIARY FUND TYPE</i>	<i>ACCOUNT GROUPS</i>		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$0	\$0	\$0	\$0	\$52,985
0	0	0	0	5,709
23,543	0	0	0	841,317
19,009	0	0	632,134	659,236
12,020	0	0	55,129	236,359
0	0	0	0	2,444,516
0	27,551	0	0	28,360
0	0	0	1,000,000	1,000,000
0	0	0	1,669,747	1,669,747
54,572	27,551	0	3,357,010	6,938,229
0	0	14,294,566	0	14,294,566
73,141	0	0	0	73,141
30,781	0	0	0	30,781
0	0	0	0	392,173
0	0	0	0	146,831
0	0	0	0	36,052
0	0	0	0	15,690
0	0	0	0	809
0	0	0	0	56,517
0	0	0	0	3,538,962
103,922	0	14,294,566	0	18,585,522
\$158,494	\$27,551	\$14,294,566	\$3,357,010	\$25,523,751

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VALLEY LOCAL SCHOOL DISTRICT
 Combined Statement of Revenues, Expenditures
 and Changes in Fund Balances
 All Governmental Fund Types
 For the Fiscal Year Ended June 30, 2002

	GOVERNMENTAL FUND TYPES				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<u>Revenues:</u>					
Property Taxes	\$1,031,549	\$22,790	\$268,046	\$0	\$1,322,385
Intergovernmental	6,379,529	1,215,594	31,876	489,185	8,116,184
Interest	85,708	0	0	9,789	95,497
Tuition and Fees	349,030	0	0	0	349,030
Rent	3,025	0	0	0	3,025
Extracurricular Activities	101,626	0	0	0	101,626
Gifts and Donations	18,940	0	0	0	18,940
Customer Services	57,748	0	0	0	57,748
Miscellaneous	60,414	0	1,443	0	61,857
Total Revenues	8,087,569	1,238,384	301,365	498,974	10,126,292
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	2,924,289	688,189	0	61,497	3,673,975
Special	456,477	300,171	0	0	756,648
Vocational	294,834	0	0	0	294,834
Support Services:					
Pupils	340,897	259	0	0	341,156
Instructional Staff	307,108	162,941	0	0	470,049
Board of Education	29,354	0	0	0	29,354
Administration	821,675	94,624	0	0	916,299
Fiscal	174,522	542	6,271	0	181,335
Operation and Maintenance of Plant	837,099	1,037	0	0	838,136
Pupil Transportation	598,694	395	0	0	599,089
Central	256,279	2,243	0	5,572	264,094
Extracurricular Activities	189,151	0	0	0	189,151
Capital Outlay	444,827	0	0	168,745	613,572
Intergovernmental	0	35,000	0	0	35,000
Debt Service:					
Principal Retirement	0	0	100,000	0	100,000
Interest and Fiscal Charges	0	0	157,754	0	157,754
Total Expenditures	7,675,206	1,285,401	264,025	235,814	9,460,446
Excess of Revenues Over (Under) Expenditures	412,363	(47,017)	37,340	263,160	665,846
<u>Other Financing Sources (Uses):</u>					
Proceeds From Sale of Refunding Bonds	0	0	1,660,000	0	1,660,000
Premium on Refunding Bonds	0	0	229,756	0	229,756
Proceeds From Sale of Fixed Assets	100	0	0	0	100
Proceeds of Capital Lease	0	0	0	1,000,000	1,000,000
Payment to Refunded Bond Escrow Account	0	0	(1,818,283)	0	(1,818,283)
Total Other Financing Sources (Uses)	100	0	71,473	1,000,000	1,071,573
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	412,463	(47,017)	108,813	1,263,160	1,737,419
Fund Balances at Beginning of Year	1,593,406	200,024	362,919	293,266	2,449,615
Fund Balances at End of Year	\$2,005,869	\$153,007	\$471,732	\$1,556,426	\$4,187,034

See accompanying notes to the general purpose financial statements

VALLEY LOCAL SCHOOL DISTRICT
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 All Governmental Fund Types
 For the Fiscal Year Ended June 30, 2002

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>						
Property Taxes	\$973,551	\$973,551	\$0	\$21,673	\$21,673	\$0
Intergovernmental	6,379,529	6,379,529	0	1,278,849	1,278,849	0
Interest	85,708	85,708	0	0	0	0
Tuition and Fees	347,922	347,922	0	0	0	0
Rent	3,025	3,025	0	0	0	0
Extracurricular Activities	101,626	101,626	0	0	0	0
Gifts and Donations	14,363	14,363	0	0	0	0
Customer Services	50,550	50,550	0	0	0	0
Miscellaneous	61,286	61,286	0	0	0	0
<i>Total Revenues</i>	<u>8,017,560</u>	<u>8,017,560</u>	<u>0</u>	<u>1,300,522</u>	<u>1,300,522</u>	<u>0</u>
<u>Expenditures:</u>						
Current:						
Instruction:						
Regular	2,901,272	2,901,195	77	690,534	690,534	0
Special	464,522	464,522	0	319,869	319,869	0
Vocational	285,835	285,835	0	0	0	0
Other	29,382	29,382	0	0	0	0
Support Services:						
Pupils	349,700	349,700	0	259	259	0
Instructional Staff	289,702	289,702	0	156,805	156,805	0
Board of Education	31,584	31,584	0	0	0	0
Administration	849,987	849,987	0	89,924	89,924	0
Fiscal	177,039	177,039	0	542	542	0
Operation and Maintenance of Plant	890,482	890,482	0	1,037	1,037	0
Pupil Transportation	601,608	601,608	0	395	395	0
Central	257,675	257,675	0	2,457	2,457	0
Extracurricular Activities	214,161	214,161	0	0	0	0
Capital Outlay	715,732	715,732	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
<i>Total Expenditures</i>	<u>8,058,681</u>	<u>8,058,604</u>	<u>77</u>	<u>1,261,822</u>	<u>1,261,822</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>(41,121)</u>	<u>(41,044)</u>	<u>77</u>	<u>38,700</u>	<u>38,700</u>	<u>0</u>
<u>Other Financing Sources (Uses):</u>						
Proceeds from Sale of Fixed Assets	100	100	0	0	0	0
Payments to Refund Bond Escrow	0	0	0	0	0	0
Refunding Bond Proceeds	0	0	0	0	0	0
Proceeds of Capital Lease	0	0	0	0	0	0
Advances In	42,000	42,000	0	0	0	0
Advances Out	0	0	0	(42,000)	(42,000)	0
Refund of Prior Year Expenditures	551	551	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>42,651</u>	<u>42,651</u>	<u>0</u>	<u>(42,000)</u>	<u>(42,000)</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	1,530	1,607	77	(3,300)	(3,300)	0
Fund Balances at Beginning of Year	2,011,269	2,011,269	0	201,451	201,451	0
Prior Year Encumbrances Appropriated	343,958	343,958	0	34,515	34,515	0
Fund Balances at End of Year	<u>\$2,356,757</u>	<u>\$2,356,834</u>	<u>\$77</u>	<u>\$232,666</u>	<u>\$232,666</u>	<u>\$0</u>

See accompanying notes to the general purpose financial statements

<i>DEBT SERVICE FUND</i>			<i>CAPITAL PROJECTS FUNDS</i>			<i>TOTALS (MEMORANDUM ONLY)</i>		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$252,082	\$252,082	\$0	\$0	\$0	\$0	\$1,247,306	\$1,247,306	\$0
31,876	31,876	0	489,185	489,185	0	8,179,439	8,179,439	0
0	0	0	1,168	1,168	0	86,876	86,876	0
0	0	0	0	0	0	347,922	347,922	0
0	0	0	0	0	0	3,025	3,025	0
0	0	0	0	0	0	101,626	101,626	0
0	0	0	0	0	0	14,363	14,363	0
0	0	0	0	0	0	50,550	50,550	0
0	0	0	0	0	0	61,286	61,286	0
<u>283,958</u>	<u>283,958</u>	<u>0</u>	<u>490,353</u>	<u>490,353</u>	<u>0</u>	<u>10,092,393</u>	<u>10,092,393</u>	<u>0</u>
0	0	0	61,497	61,497	0	3,653,303	3,653,226	77
0	0	0	0	0	0	784,391	784,391	0
0	0	0	0	0	0	285,835	285,835	0
0	0	0	0	0	0	29,382	29,382	0
0	0	0	0	0	0	349,959	349,959	0
0	0	0	0	0	0	446,507	446,507	0
0	0	0	0	0	0	31,584	31,584	0
0	0	0	0	0	0	939,911	939,911	0
6,271	6,271	0	0	0	0	183,852	183,852	0
0	0	0	0	0	0	891,519	891,519	0
0	0	0	0	0	0	602,003	602,003	0
0	0	0	5,572	5,572	0	265,704	265,704	0
0	0	0	0	0	0	214,161	214,161	0
0	0	0	238,528	238,528	0	954,260	954,260	0
100,000	100,000	0	0	0	0	100,000	100,000	0
84,838	84,838	0	0	0	0	84,838	84,838	0
<u>191,109</u>	<u>191,109</u>	<u>0</u>	<u>305,597</u>	<u>305,597</u>	<u>0</u>	<u>9,817,209</u>	<u>9,817,132</u>	<u>77</u>
92,849	92,849	0	184,756	184,756	0	275,184	275,261	77
0	0	0	0	0	0	100	100	0
0	1,889,756	1,889,756	0	1,000,000	1,000,000	0	2,889,756	2,889,756
0	(1,889,756)	(1,889,756)	0	0	0	0	(1,889,756)	(1,889,756)
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	42,000	42,000	0
0	0	0	0	0	0	(42,000)	(42,000)	0
0	0	0	0	0	0	551	551	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>651</u>	<u>1,000,651</u>	<u>1,000,000</u>
92,849	92,849	0	184,756	1,184,756	1,000,000	275,835	1,275,912	1,000,077
347,764	347,764	0	266,717	266,717	0	2,827,201	2,827,201	0
0	0	0	26,550	26,550	0	405,023	405,023	0
<u>\$440,613</u>	<u>\$440,613</u>	<u>\$0</u>	<u>\$478,023</u>	<u>\$1,478,023</u>	<u>\$1,000,000</u>	<u>\$3,508,059</u>	<u>\$4,508,136</u>	<u>\$1,000,077</u>

VALLEY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenses
and Changes in Fund Equity
Enterprise Fund
For the Fiscal Year Ended June 30, 2002

	<i>Food Service</i>
<u>Operating Revenues:</u>	
Sales	\$124,479
<u>Operating Expenses:</u>	
Salaries	119,303
Fringe Benefits	68,478
Purchased Services	5,966
Materials and Supplies	17,791
Cost of Sales	180,717
Depreciation	6,701
Other	671
<i>Total Operating Expenses</i>	399,627
Operating Loss	(275,148)
<u>Non-Operating Revenues/Expenses:</u>	
Federal and State Subsidies	224,546
Federal Donated Commodities	27,423
Loss on Sale of Fixed Assets	(1,528)
Interest	1,956
<i>Total Non-Operating Revenues/Expenses</i>	252,397
Net Loss	(22,751)
Retained Earnings at Beginning of Year	53,532
Retained Earnings at End of Year	30,781
Contributed Capital at Beginning and End of Year	73,141
Fund Equity at End of Year	\$103,922

See accompanying notes to the general purpose financial statements

VALLEY LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenses and
Changes in Fund Equity - Budget and Actual (Budget Basis)
Enterprise Fund
For the Fiscal Year Ended June 30, 2002

	FOOD SERVICE		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Sales	\$124,479	\$124,479	\$0
Interest	1,956	1,956	0
Federal and State Subsidies	225,588	225,588	0
<i>Total Revenues</i>	<i>352,023</i>	<i>352,023</i>	<i>0</i>
<u>Expenses:</u>			
Salaries	112,526	112,526	0
Fringe Benefits	62,442	62,442	0
Purchased Services	6,391	6,391	0
Materials and Supplies	172,064	172,064	0
Capital Outlay	3,615	3,615	0
Other	671	671	0
<i>Total Expenses</i>	<i>357,709</i>	<i>357,709</i>	<i>0</i>
Excess of Revenues Under Expenses	(5,686)	(5,686)	0
Fund Equity at Beginning of Year	94,618	94,618	0
Prior Year Encumbrances Appropriated	1,345	1,345	0
Fund Equity at End of Year	<u>\$90,277</u>	<u>\$90,277</u>	<u>\$0</u>

See accompanying notes to the general purpose financial statements

VALLEY LOCAL SCHOOL DISTRICT
Statement of Cash Flows
Enterprise Fund
For the Fiscal Year Ended June 30, 2002

<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	<u>Food Service</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Sales	\$124,479
Cash Payments to Suppliers for Goods and Services	(179,177)
Cash Payments to Employees for Services	(112,526)
Cash Payments for Employee Benefits	(62,442)
Cash Payments for Other Operating Expenses	(671)
	<hr/>
Net Cash Used for Operating Activities	(230,337)
 <u>Cash Flows from Noncapital Financing Activities:</u>	
Federal and State Subsidies	225,588
 <u>Cash Flows from Capital and Related Financing Activities:</u>	
Aquisition of Capital Assets	(2,418)
 <u>Cash Flows from Investing Activities:</u>	
Interest	1,956
	<hr/>
Net Decrease in Cash and Cash Equivalents	(5,211)
Cash and Cash Equivalents at Beginning of Year	95,963
	<hr/>
Cash and Cash Equivalents at End of Year	<u><u>\$90,752</u></u>
 <u>Reconciliation of Operating Loss to Net</u>	
<u>Cash Used for Operating Activities:</u>	
Operating Loss	(275,148)
	<hr/>
<u>Adjustments to Reconcile Operating Loss</u>	
<u>to Net Cash Used for Operating Activities:</u>	
Depreciation	6,701
Donated Commodities Used During Year	24,928
Changes in Assets and Liabilities:	
Decrease in Inventory Held for Resale	148
Decrease in Materials and Supplies Inventory	222
Increase in Accrued Wages and Benefits Payable	2,833
Increase in Compensated Absences Payable	4,169
Increase in Intergovernmental Payable	5,810
	<hr/>
Total Adjustments	44,811
	<hr/>
Net Cash Used for Operating Activities	<u><u>(230,337)</u></u>

Non-Cash Transactions:

During fiscal year 2002, the enterprise fund received \$27,423 in donated commodities.

See accompanying notes to the general purpose financial statements

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1888 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 48 square miles. It is located in Scioto County, and includes all of Valley Township and portions of Jefferson, Rush, Madison, and Morgan Townships. It is staffed by 51 non-certificated employees, 93 certificated full-time teaching personnel and 6 administrative employees who provide services to 1,260 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 following organizations which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these organizations nor are they fiscally dependent on the School District:

- Booster Clubs
- Parent - Teacher Organizations
- Village of Lucasville

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation - Fund Accounting

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

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

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Types:

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

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

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

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

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

Proprietary Fund Type:

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

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Type:

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

Account Groups:

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

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

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

B. Measurement Focus and Basis of Accounting

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

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

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

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

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

Tax Budget:

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

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

Estimated Resources:

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Appropriations:

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

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

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Prior to year-end, the School District passed a supplemental appropriation that reflected actual expenditures plus encumbrances for the fiscal year. Formal budgetary integration is employed by the Board of Education as a management control device during the year for all funds at the fund level, other than agency funds, consistent with statutory provisions.

Encumbrances:

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

Lapsing of Appropriations:

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including the enterprise fund, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. The School District holds a donation of common stock, which is shown on the combined balance sheet as "Investments in Segregated Accounts". During fiscal year 2002, the School District held money to be used for future renovations to buildings of the School District. The monies are presented as "Cash and Cash Equivalents with Fiscal Agents" on the balance sheet (see Note 13).

During fiscal year 2002, the District's investments were limited to the State Treasury Assets Reserve of Ohio (STAR Ohio), repurchase agreements, and donated common stock. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts such as repurchase agreements are reported at cost. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

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 2002 amounted to \$85,708, which includes \$23,906 from other School District funds.

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

E. Inventory

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, 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 year in which services are consumed.

G. Fixed Assets and Depreciation

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets, as applicable.

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

H. Compensated Absences

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Obligations Account Group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Interfund Transactions

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

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

K. Restricted Assets

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance Reserves/Designations

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

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

M. Estimates

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

N. Contributed Capital

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

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

O. Total Columns on General Purpose Financial Statements

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At June 30, 2002, the Disadvantaged Pupils Impact Aid and Title VI-B Special Revenue Funds had deficit fund balances of \$1,280 and \$4,197, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

During fiscal year 2002, the School District did not budget for the activity of the debt refunding. This resulted in several violations of Ohio Revised Code Chapter 5705.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
GAAP Basis	\$412,463	(\$47,017)	\$108,813	\$1,263,160
Adjustments:				
Revenue Accruals	(69,458)	62,138	(17,407)	(8,621)
Expenditure Accruals	(20,358)	26,635	72,916	9,290
Encumbrances	(363,040)	(3,056)	0	(79,073)
Payment to Refunded Bond				
Escrow Account	0	0	(71,473)	0
Advances	42,000	(42,000)	0	0
Budget Basis	<u>\$1,607</u>	<u>(\$3,300)</u>	<u>\$92,849</u>	<u>\$1,184,756</u>

Net Loss/Excess of Revenues Under Expenses
Enterprise Fund

	<u>Food Service</u>
GAAP Basis	(\$22,751)
Adjustments:	
Revenue Accruals	1,042
Federal Donated Commodities	(2,495)
Inventory Held for Resale	(148)
Materials and Supplies Inventory	(222)
Expense Accruals	13,552
Capital Outlay	(2,418)
Depreciation Expense	6,701
Encumbrances	(475)
Loss on Sales of Fixed Assets	1,528
Budget Basis	<u>(\$5,686)</u>

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$949,263 and the bank balance was \$1,084,834. Of the bank balance, \$176,213 was covered by federal depository insurance and \$908,621 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

	Category 2	Category 3	Unclassified	Carrying/Fair Value
STAROhio	\$0	\$0	\$4,075,500	\$4,075,500
Repurchase Agreement	0	55,466	0	55,466
Donated Common Stock	18,940	0	0	18,940
Total Investments	\$18,940	\$55,466	\$4,075,500	\$4,149,906

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$5,080,229	\$18,940
Investments:		
STAROhio	(4,075,500)	4,075,500
Repurchase Agreement	(55,466)	55,466
GASB Statement No. 3	\$949,263	\$4,149,906

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002 on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2002 real property taxes are collected in and intended to finance fiscal year 2003.

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

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true 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.

Tangible personal property taxes paid 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.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 6 - PROPERTY TAXES (Continued)

The assessed values upon which fiscal year 2002 taxes were collected are:

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$37,004,900	78.01%	\$42,916,850	80.91%
Public Utility	6,317,260	13.32%	5,498,150	10.37%
Tangible Personal Property	4,113,320	8.67%	4,628,540	8.72%
Total Assessed Value	<u>\$47,435,480</u>	<u>100.00%</u>	<u>\$53,043,540</u>	<u>100.00%</u>

Tax rate per \$1,000 of assessed valuation	\$31.21	\$31.21
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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, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amounts available as an advance at June 30 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance at June 30, 2002, was \$113,218 in the General Fund, \$2,494 in the Classroom Facilities Maintenance Special Revenue Fund and \$31,119 in the Debt Service Fund.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002, consisted of property taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 7 – RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

Fund Type/Fund	Amounts
Special Revenue Fund:	
Title VI-B	\$1,440
Capital Projects Fund:	
Classroom Facilities	1,205,517
Enterprise Fund:	
Federal and State Subsidies	19,346
Total Intergovernmental Receivables	\$1,226,303

The School District was awarded a grant in the amount of \$1,655,904 on August 23, 2000 from the Ohio School Facilities Commission for the construction of new facilities. The grant will be advanced to the School District throughout the construction period and recorded as revenue in the Classroom Facilities Capital Projects Fund as it becomes available.

NOTE 8 - FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$133,130
Less Accumulate Depreciation	(88,212)
Net Fixed Assets	\$44,918

A summary of the changes in general fixed assets during fiscal year 2002 follows:

Asset Category	Balance at 6/30/01	Additions	Deductions	Balance at 6/30/02
Land and Improvements	\$402,015	\$390,767	\$0	\$792,782
Buildings and Improvements	17,774,291	17,913	0	17,792,204
Furniture, Fixtures and Equipment	1,954,824	181,712	106,232	2,030,304
Books	657,294	0	0	657,294
Vehicles	632,099	111,412	89,008	654,503
Construction in Progress	0	26,271	0	26,271
Totals	\$21,420,523	\$728,075	\$195,240	21,953,358
Accumulated Depreciation				(7,658,792)
Total General Fixed Assets				\$14,294,566

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Indiana Insurance for property and fleet insurance and inland marine coverage. The School District contracted with Acordia Insurance for general liability insurance. Insurance coverage provided includes the following:

Building and Contents - at replacement cost (\$1,000 deductible)	\$23,436,013
Inland Marine Coverage (\$250 deductible)	2,500 to 500,000
Crime Insurance	25,000 to 100,000
Automobile Liability (\$100 deductible)	1,000,000
Uninsured Motorists (\$250 deductible)	1,000,000
General Liability	
Per Occurrence	1,000,000
Total per year	5,000,000

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

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

For fiscal year 2002, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per 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, Columbus, Ohio 43215-3764.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current 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 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was 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, 2002, 2001, and 2000 were \$68,131, \$36,781, and \$44,539, respectively; 55.10 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$30,593, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$368,770, \$418,106, and \$224,733, respectively; 79.99 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$73,806 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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 benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$174,681 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$115,026.

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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Life Insurance

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 13 – CAPITAL LEASE

The capital lease obligation recorded in the General Long-Term Obligations Account Group relates to a renovation project involving the buildings of the School District. Five more classrooms are being added to the middle school along with other renovations to the building. The elementary and high school buildings are also being renovated. At the time the School District entered into this lease, the renovations had not yet begun. As part of the agreement, Banc One Leasing Corporation, as lessor, deposited \$1,000,000 in the School District's name, with a fiscal 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. At fiscal year-end, the project had not begun. \$1,000,000 is still held by the fiscal agent. No lease payments have been made as of June 30, 2002. The principal amount owed on the lease at year-end is \$1,000,000.

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, 2002.

Fiscal Year Ending June 30,	GLTOAG
2003	\$19,446
2004	19,500
2005	19,500
2006	19,500
2007	19,500
2008-2012	97,500
2013-2016	1,078,000
Total	1,272,946
Less: Amount Representing Interest	(272,946)
Present Value of Net Minimum Lease Payments	\$1,000,000

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Amount Outstanding 6/30/01	Additions	Deductions	Amount Outstanding 6/30/02
<u>General Obligation Bonds:</u>				
Classroom Facilities General Obligation Bond 1991 7.08%	\$1,760,000	\$0	\$1,760,000	\$0
Classroom Facilities General Obligation Refunding Bonds 2001 2.05 - 4.00 %	0	1,669,747	0	1,669,747
<u>Other Long-Term Obligations:</u>				
Capital Lease	0	1,000,000	0	1,000,000
Pension Obligation	60,307	55,129	60,307	55,129
Compensated Absences	537,478	94,656	0	632,134
Total Long-Term Obligations	<u>\$2,357,785</u>	<u>\$2,819,532</u>	<u>\$1,820,307</u>	<u>\$3,357,010</u>

1991 Classroom Facilities Bonds - In 1991, the school District issued \$2,350,000 in voted general obligation bonds for the purpose of constructing a new high school and elementary school. The bonds were issued for a twenty-three year period with final maturity at December 1, 2013. A principal payment of \$100,000 was made in December 2001.

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 2002, the capital appreciation bonds were accreted \$9,747.

The total outstanding bond value as of fiscal year-end 2002 was \$1,669,747. The total bond value at final maturity will be \$2,110,000.

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

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

The District advanced refunded the Classroom Facilities General Obligation Bonds to reduce its total debt service payments over the next twelve years by \$46,352 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$93,432. The General Obligation Refunding Bonds will be paid through the Debt Service Fund with property tax levy revenue.

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

The School District's overall legal debt margin was \$3,575,904 with an unvoted debt margin of \$53,044 at June 30, 2002.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2002, are as follows:

Fiscal year Ending June 30,	Serial Bonds Principal	Serial Bonds Interest	Capital Appreciation Bonds	Total
2003	\$155,000	\$50,419	\$0	\$205,419
2004	160,000	46,910	0	206,910
2005	160,000	42,750	0	202,750
2006	170,000	37,833	0	207,833
2007	170,000	32,223	0	202,223
2008-2012	750,000	61,061	205,000	1,016,061
2013-2017	0	0	340,000	340,000
Total	<u>\$1,565,000</u>	<u>\$271,196</u>	<u>\$545,000</u>	<u>\$2,381,196</u>

NOTE 15 – CONTRACTUAL COMMITMENT

As of June 30, 2002, the School District had the following contractual purchase commitments:

Contractor	Contract Amount	Amount Expended	Balance at 06/30/02
BBL Construction	<u>\$134,190</u>	<u>\$26,271</u>	<u>\$107,919</u>

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Adams, Brown, Highland, Lawrence, Pike, Ross, Jackson, Vinton, and Scioto Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, and one representative from the fiscal agent. The School District paid SCOCA \$19,630 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

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

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Pickaway-Ross CTC, Shawnee State University, and Pike, Ross, Lawrence, and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The Valley Local School District's superintendent is not currently on the SERRC Board nor is he an alternate for the SERRC Board. The fiscal agent for the SERRC is Dawson-Bryant LSD. 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 45663.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 17 - PUBLIC ENTITY SHARED RISK POOL

Scioto County Schools Council - The School District is a member of the Scioto County Schools Council, a public entity shared risk pool. Several Scioto County school districts have entered into an agreement with the South Central Ohio Educational Service Center to form the Scioto County Schools Council. The overall objectives of the council are to formulate and administer a program of health insurance for the benefit of the council members' employees and their dependents, to obtain lower costs for health coverage, and to secure cost control by implementing a program of comprehensive loss control. The Council's business and affairs are managed by a Board of Directors, consisting of the superintendents from each of the participating school districts. The School District pays premiums based on what the Council estimates will cover the costs of all claims for which the Council is obligated. If the School District's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. The Council views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at Fourth and Court Streets, Portsmouth, Ohio 45662.

NOTE 18 - INSURANCE PURCHASING POOL

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

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND BALANCE RESERVES

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

For fiscal year ended June 30, 2002, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refunds received from the Bureau of Workers' Compensation, which must be spent for specified purposes.

VALLEY LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND BALANCE RESERVES (Continued)

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2001	\$0	\$0	\$36,052
Current Year Set-aside Requirement	148,696	148,696	0
Current Year Offsets	0	(24,388)	0
Qualifying Disbursements	<u>(148,696)</u>	<u>(124,308)</u>	<u>0</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$0</u>	<u>\$0</u>	<u>\$36,052</u>

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

NOTE 20 – STATE SCHOOL FUNDING DECISION

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

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

NOTE 21 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

B. Litigation

The School District is not party to legal proceedings.

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**VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550	\$	\$24,248	\$	\$24,929
National School Breakfast	05-PU-2001	10.553	13,449		13,449	
	05-PU-2002		41,411		41,411	
Total National School Breakfast Program			<u>54,860</u>		<u>54,860</u>	
National School Lunch Program	LL-P1-2001	10.555	12,397		12,397	
	LL-P4-2001		22,176		22,176	
	LL-P4-2002		118,518		118,518	
Total National School Lunch Program			<u>153,091</u>		<u>153,091</u>	
Total United States Department of Agriculture - Nutrition Cluster			207,951	24,248	207,951	24,929
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Educationally Deprived Children - Local Educational Agencies Title I	C1-S1-2001	84.010	73,597		66,351	
	C1-S1-2002		322,650		257,452	
Total Title I			<u>396,247</u>		<u>323,803</u>	
Special Education Grants to States (IDEA Part B)	6B-SF-2000	84.027	12,069		7,024	
	6B-SF-2001		108,583		94,184	
Total Special Education Grants to States			<u>120,652</u>		<u>101,208</u>	
Safe and Drug Free Schools and Communities State Grants						
Drug-Free Schools Grant	DR-S1-2001	84.186	945		2,218	
	DR-S1-2002		12,162		9,044	
Total Safe and Drug Free Schools			<u>13,107</u>		<u>11,262</u>	
Goals 2000 - State and Local Education Systemic Improvement Grants	G2-S1-2001	84.276	11,421		14,979	
	G2-S9-2001		10,000		3,457	
Total Goals 2000			<u>21,421</u>		<u>18,436</u>	
Eisenhower Professional Development Grant	MS-S1-2001	84.281			726	
	MS-S1-2002		8,928		7,355	
Total Eisenhower Professional Development Grant			<u>8,928</u>		<u>8,081</u>	
Innovative Education Program Strategies	C2-S1-2000	84.298			20	
	C2-S1-2001				203	
	C2-S1-2002		6,602		6,602	
Total Innovative Education Program Strategies			<u>6,602</u>		<u>6,825</u>	
Technology Literacy Challenge Grant	TF-43-2000	84.318			22,600	
Class Size Reduction Grant	CR-S1-2001	84.340	9,353		8,012	
	CR-S1-2002		52,213		43,465	
Total Class Size Reduction Grant			<u>61,566</u>		<u>51,477</u>	
Total United States Department of Education			<u>628,523</u>		<u>543,692</u>	
Total Federal Awards Receipts and Expenditures			<u>\$836,474</u>	<u>\$24,248</u>	<u>\$751,643</u>	<u>\$24,929</u>

The accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR FISCAL THE YEAR ENDED JUNE 30, 2002**

NOTE A - BASIS OF ACCOUNTING

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the School District had no significant food commodities in inventory.



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

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

To The Board of Education:

We have audited the accompanying general-purpose financial statements of the Valley Local School District, Scioto County, Ohio (the School District), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 20, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2002-10773-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated December 20, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated December 20, 2002.

Valley Local School District
Scioto County
Report of Independent Accountants on Compliance and on Internal
Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized loop at the end.

Jim Petro
Auditor of State

December 20, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Valley Local School District, Scioto County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The School District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

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

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

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

December 20, 2002

**VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)

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

Finding Number 2002-10773-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

Expenditures plus encumbrances exceeded appropriations as follows:

<u>Dates</u>	<u>Fund</u>	<u>Total Appropriations (including carryover appropriations)</u>	<u>Total Expenditures Plus Current Encumbrances</u>	<u>Variance</u>
01/31/02	Classroom Facilities	\$22,045	\$28,309	(\$6,264)
01/31/02	Other Grant	0	7,137	(7,137)
01/31/02	Telecomm E-Rate	0	3,000	(3,000)
01/31/02	Ohio Reads	3,391	8,530	(5,139)
06/30/02	Debt Service	191,109	2,080,865	(1,889,756)

We recommend the Treasurer not certify the availability of funds if funds have not yet been legally appropriated. We further recommend that the Treasurer review the expenditures versus appropriation report and have the Board of Education amend appropriations if they wish to authorize additional spending.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards.

**VALLEY LOCAL SCHOOL DISTRICT
SCIOTO COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315 (c)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-10773-001	The Treasurer will not certify the availability of funds if funds have not yet been legally appropriated. In addition, the Treasurer will review the expenditures versus appropriation report and have the Board of Education amend appropriations as needed.	January 1, 2003	Michael Bennett, Treasurer



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OFFICE OF THE AUDITOR

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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
FEBRUARY 6, 2003**