



**Auditor of State
Betty Montgomery**

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Assets.....	17
Statement of Activities.....	18
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	19
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	23
Statement of Net Assets – Proprietary Fund.....	24
Statement of Revenues, Expenses and Changes in Net Assets –Proprietary Fund.....	25
Statement of Cash Flows – Proprietary Fund.....	26
Statement of Fiduciary Net Assets – Fiduciary Funds.....	27
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund.....	28
Notes to the Basic Financial Statements.....	29
Federal Awards Receipts and Expenditures Schedule.....	57
Notes to the Federal Awards Receipts and Expenditures Schedule.....	58
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters as Required by <i>Government Auditing Standards</i>	59
Independent Accountants' Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	61
Schedule of Findings.....	63

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Teays Valley Local School District
Pickaway County
385 Circleville Avenue
Ashville, Ohio 43103

To the Board of Education:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Teays Valley Local School District, Pickaway County, Ohio, as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

February 10, 2006

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the Teays Valley Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$200,446 which represents a 0.65% increase from 2004.
- General revenues accounted for \$25,215,478 in revenue or 90.53% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,638,249 or 9.47% of total revenues of \$27,853,727.
- The District had \$27,653,281 in expenses related to governmental activities; \$2,638,249 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) were adequate to provide for these programs.
- The District has two major funds which include the general fund and debt service fund. The general fund had \$23,822,283 in revenues and other financing sources and \$23,459,868 in expenditures and other financing uses. The general fund's fund balance increased from \$3,041,023 to \$3,392,669.
- The debt service fund had \$1,934,385 in revenues and \$1,914,418 in expenditures and other financing uses. The debt service fund's fund balance increased from \$1,523,369 to \$1,543,336.
- The District has \$47,583,902 in capital assets at June 30, 2005. This amount is net of accumulated depreciation in the amount of \$9,253,328. Fiscal year 2005 depreciation expense was \$1,420,116. Total capital assets, net of related debt to acquire or construct the assets, were \$26,074,944 at June 30, 2005.
- The District has \$24,434,352 in long-term liabilities outstanding at June 30, 2005. Of this total, \$1,197,852 is due within one year and \$23,236,500 is due in greater than one year.

Using this Financial Report

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

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

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 17. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-19 of this report.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for health/medical and dental benefits self-insurance. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship programs. This activity is presented as a private- purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 25 and 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-55 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The table below provides a summary of the District's net assets for fiscal years 2005 and 2004.

	Net Assets		
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>	Percentage <u>Change</u>
<u>Assets</u>			
Current and other assets	\$ 18,011,718	\$ 16,724,010	7.70 %
Capital assets	<u>47,583,902</u>	<u>47,107,429</u>	1.01 %
 Total assets	 <u>65,595,620</u>	 <u>63,831,439</u>	 2.76 %
<u>Liabilities</u>			
Current liabilities	10,133,816	8,479,487	19.51 %
Long-term liabilities	<u>24,434,352</u>	<u>24,524,946</u>	(0.37) %
 Total liabilities	 <u>34,568,168</u>	 <u>33,004,433</u>	 4.74 %
<u>Net Assets</u>			
Invested in capital assets, net of related debt	26,074,944	26,632,397	(2.09) %
Restricted	2,049,951	2,007,583	2.11 %
Unrestricted	<u>2,902,557</u>	<u>2,187,026</u>	32.72 %
 Total net assets	 <u>\$ 31,027,452</u>	 <u>\$ 30,827,006</u>	 0.65 %

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005 and June 30, 2004, the District's assets exceeded liabilities by \$31,027,452 and \$30,827,006, respectively. Net assets increased \$200,446. This increase is due to a \$476,473 increase in capital assets, increase of \$466,942 in cash with fiscal resulting from a larger positive balance with the Ross County School Employees Insurance Consortium, and a decrease of \$591,533 in general obligation bonds due to the District paying off a debt issuance in fiscal 2005 and the annual repayment of debt.

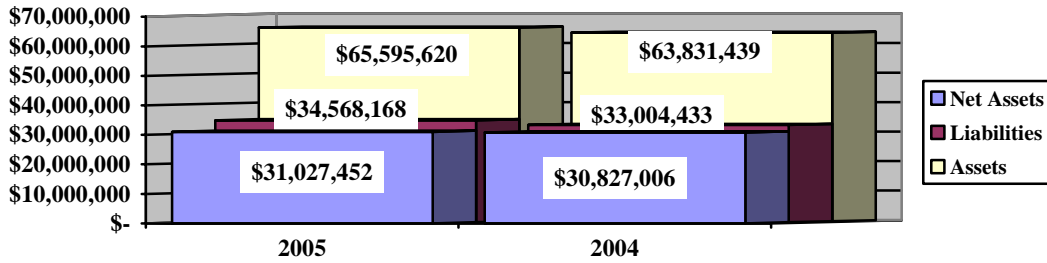
At year-end, capital assets represented 72.54% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005 and June 30, 2004, were \$26,074,944 and \$26,632,397, respectively. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,049,951, represents resources that are subject to external restriction on how they may be used. Of the restricted net assets, \$65,273 is restricted for capital projects. The remaining balance of unrestricted net assets of \$2,902,557 may be used to meet the District's ongoing obligations to the students and creditors.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Governmental Activities



The table below shows the change in net assets for fiscal years 2005 and 2004.

Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>	Percentage Change
<u>Revenues</u>			
Program revenues:			
Charges for services and sales	\$ 1,038,961	\$ 973,890	6.68 %
Operating grants and contributions	1,599,288	1,337,719	19.55 %
Capital grants and contributions	-	274,100	(100.00) %
General revenues:			
Property taxes	8,998,722	8,613,961	4.47 %
Grants and entitlements	15,842,447	14,417,742	9.88 %
Investment earnings	200,105	74,105	170.03 %
Other	174,204	225,282	(22.67) %
Total revenues	<u>27,853,727</u>	<u>25,916,799</u>	7.47 %

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>	Percentage Change
<u>Expenses</u>			
Program expenses:			
Instruction:			
Regular	\$ 12,365,375	\$ 10,611,262	16.53 %
Special	2,227,736	2,098,422	6.16 %
Vocational	726,083	819,603	(11.41) %
Other	1,172	146	702.74 %
Support services:			
Pupil	1,044,853	1,035,719	0.88 %
Instructional staff	1,267,683	1,096,494	15.61 %
Board of education	77,043	225,379	(65.82) %
Administration	2,151,820	1,925,735	11.74 %
Fiscal	503,305	538,453	(6.53) %
Business	99,041	71,492	38.53 %
Operations and maintenance	2,693,351	2,164,807	24.42 %
Pupil transportation	1,392,166	1,198,608	16.15 %
Central	173,016	137,956	25.41 %
Operations of non-instructional services	264	-	100.00 %
Food service operations	1,108,627	833,419	33.02 %
Extracurricular activities	545,959	490,641	11.27 %
Intergovernmental	13,479	27,892	(51.67) %
Interest and fiscal charges	<u>1,262,308</u>	<u>1,294,484</u>	(2.49) %
Total expenses	<u>27,653,281</u>	<u>24,570,512</u>	12.55 %
Change in net assets	200,446	1,346,287	(85.11) %
Net assets, beginning of year	<u>30,827,006</u>	<u>29,480,719</u>	4.57 %
Net assets, end of year	<u>\$ 31,027,452</u>	<u>\$ 30,827,006</u>	0.65 %

Governmental Activities

Net assets of the District's governmental activities increased \$200,446 in fiscal 2005 and \$1,346,287 in fiscal 2004. Total governmental expenses of \$27,653,281 were offset by program revenues of \$2,638,249 and general revenues of \$25,215,478 during fiscal 2005. Program revenues supported 9.47% of the total governmental expenses during fiscal 2005 and 10.52% during fiscal 2004. This variance is due a decrease of 100% in capital grants and contributions in fiscal 2005. This is due to the District receiving revenue related to the State's share of the construction project in fiscal 2004 and not receiving any of this revenue in fiscal 2005. In the general revenues area, investment earnings increased as the District had more investments during fiscal 2005 and interest rates on allowable investments were higher.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources account for 89.18% of total governmental revenue. Real estate property is reappraised every six years. The latest reappraisal by Pickaway County was in 2005. Property tax revenue increased 4.47% during fiscal 2005. The District also received an increase in school foundation payments due to increased enrollment.

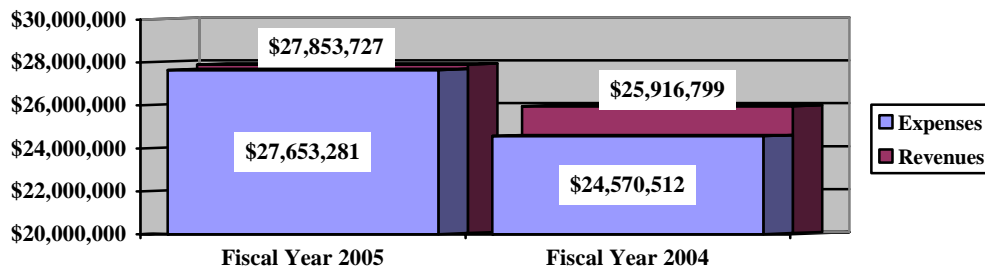
Overall, expenses increased by 12.55% or \$3,082,769. Regular instruction and instructional staff support services increased due to the addition of personnel for the increasing number of students entering the District. Food service operations increased due to increased enrollment within the District.

Voters approved a \$22,850,666 bond levy in November 1999. This levy, which generates approximately \$1,787,838 per year for 28 years, is expected to provide revenue for debt service through fiscal year 2027. The bond issue allowed for construction of 3 new elementary schools as well as major renovations and additions at the District's High School and Middle School instructional facilities.

The District's financial condition has improved in recent years due to increased property and income taxes from growth within the District. The District is at the twenty mill floor for local taxes. The District is projecting an increase in local funding in future years as Pickaway County recently underwent a triennial update in assessed valuations which will result in an increase of 20 mills times the increase in value. In addition, the District has a .75% school income tax and is rapidly growing with many subdivisions already built and more planned for the future.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

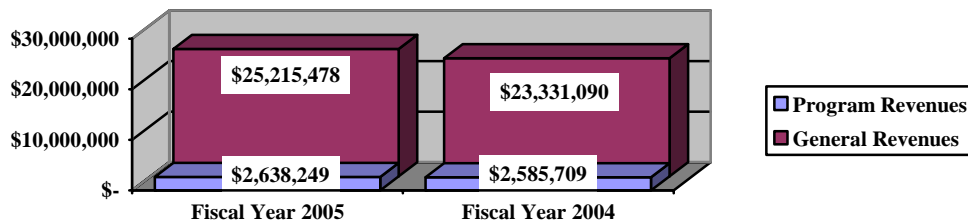
Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 12,365,375	\$ 11,830,169	\$ 10,611,262	\$ 9,889,048
Special	2,227,736	1,885,107	2,098,422	1,777,702
Vocational	726,083	724,724	819,603	819,603
Other	1,172	1,172	146	146
Support services:				
Pupil	1,044,853	988,023	1,035,719	944,052
Instructional staff	1,267,683	813,322	1,096,494	755,890
Board of education	77,043	77,043	225,379	225,373
Administration	2,151,820	1,966,272	1,925,735	1,782,793
Fiscal	503,305	500,606	538,453	531,373
Business	99,041	99,041	71,492	71,492
Operations and maintenance	2,693,351	2,692,581	2,164,807	2,151,245
Pupil transportation	1,392,166	1,390,743	1,198,608	1,198,608
Central	173,016	158,016	137,956	122,956
Food service operations	1,108,627	197,497	833,419	22,472
Operations of non-instructional services	264	264	-	-
Extracurricular activities	545,959	414,665	490,641	369,674
Intergovernmental	13,479	13,479	27,892	27,892
Interest and fiscal charges	1,262,308	1,262,308	1,294,484	1,294,484
Total	\$ 27,653,281	\$ 25,015,032	\$ 24,570,512	\$ 21,984,803

The dependence upon tax and other general revenues for governmental activities is apparent, 94.26% of instruction activities were supported through taxes and other general revenues during fiscal 2005 and 92.29% in fiscal 2004. For all governmental activities, general revenue support was 90.53% in fiscal 2005 and 89.48% in fiscal 2004. The District's taxpayers, as a whole, are by far the primary support for District students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.

Governmental Activities - General and Program Revenues



**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$6,616,040, which is lower than last year's total of \$7,374,587. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 3,392,669	\$ 3,041,023	\$ 351,646	11.56 %
Debt Service	1,543,336	1,523,369	19,967	1.31 %
Other Governmental	<u>1,680,035</u>	<u>2,810,195</u>	<u>(1,130,160)</u>	(40.22) %
Total	<u>\$ 6,616,040</u>	<u>\$ 7,374,587</u>	<u>\$ (758,547)</u>	(10.29) %

General Fund

During fiscal year 2005, the District's general fund balance increased by \$362,415, which can be attributed to revenue increases exceeding increasing expenses related to the growing student population during fiscal year 2005. Intergovernmental revenue increased during fiscal year 2005 due to an increase in foundation received during fiscal year 2005. Earnings on investments increased as the District had more funds to invest in fiscal 2005 and interest rates were higher. Debt service expenditures increased due to the principal and interest payments associated with several new capital lease agreements that the District entered into during fiscal 2005. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 7,327,991	\$ 6,804,900	\$ 523,091	7.69 %
Tuition	43,907	56,988	(13,081)	(22.95) %
Earnings on investments	127,009	54,226	72,783	134.22 %
Intergovernmental	15,610,461	14,238,853	1,371,608	9.63 %
Other revenues	<u>197,716</u>	<u>246,256</u>	<u>(48,540)</u>	(19.71) %
Total	<u>\$23,307,084</u>	<u>\$21,401,223</u>	<u>\$ 1,905,861</u>	8.91 %
<u>Expenditures</u>				
Instruction	\$14,007,246	\$12,884,908	\$ 1,122,338	8.71 %
Support services	8,265,978	7,654,432	611,546	7.99 %
Operation of non-instructional services	256	-	256	100.00 %
Extracurricular activities	384,057	348,300	35,757	10.27 %
Capital outlay	515,199	229,505	285,694	124.48 %
Debt service	<u>282,206</u>	<u>211,786</u>	<u>70,420</u>	33.25 %
Total	<u>\$23,454,942</u>	<u>\$21,328,931</u>	<u>\$ 2,126,011</u>	9.97 %

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Debt Service

During fiscal year 2005, the District's debt service fund balance increased \$19,967. The table that follows assists in illustrating the financial activities of the debt service fund.

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,673,213	\$ 1,621,964	\$ 51,249	3.16 %
Earnings on investments	29,186	10,114	19,072	188.57 %
Intergovernmental	204,855	180,428	24,427	13.54 %
Other revenues	<u>27,131</u>	<u>0</u>	<u>27,131</u>	100.00 %
Total	<u>\$ 1,934,385</u>	<u>\$ 1,812,506</u>	<u>\$ 121,879</u>	6.72 %
<u>Expenditures</u>				
Fiscal	\$ 31,276	\$ 38,128	\$ (6,852)	(17.97) %
Debt Service:				
Principal	740,000	685,000	55,000	8.03 %
Interest	<u>1,101,232</u>	<u>1,139,947</u>	<u>(38,715)</u>	(3.40) %
Total	<u>\$ 1,872,508</u>	<u>\$ 1,863,075</u>	<u>\$ 9,433</u>	0.51 %

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources of \$23,143,888 were \$1,194,979 higher than the original budgeted revenues and other financing sources estimate of \$21,948,909. Actual revenues and other financing sources of \$23,144,425 were \$537 higher than the final budgeted amounts.

General fund original and final appropriations (appropriated expenditures plus other financing uses) were \$25,047,794. Actual expenditures plus other financing uses of \$23,014,321 were \$2,033,473 lower than the final budgeted amounts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$47,583,902 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Land	\$ 1,211,164	\$ 445,549
Land improvements	3,511,786	206,142
Buildings and improvements	38,849,860	2,453,754
Furniture and equipment	3,195,611	2,818,989
Vehicles	815,481	656,262
Construction in progress	-	40,526,733
Total	\$ 47,583,902	\$ 47,107,429

The primary increase occurred in the acquisition of land by the District. Total additions to capital assets for fiscal 2005 were \$1,903,155. The District had \$1,420,116 in depreciation expense for 2005 and \$6,566 in disposals (net of depreciation).

See Note 9 to the basic financial statements for detail on the District's capital assets.

Debt Administration

At June 30, 2005 the District had \$21,680,325 in general obligation bonds outstanding. The issue is comprised of current issue serial and term bonds and capital appreciation bonds. Of this total, \$610,000 is due within one year and \$21,070,325 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2005	Governmental Activities 2004
Current interest bonds - 1984	\$ -	\$ 170,000
Current interest bonds - 2000	20,360,000	20,930,000
Capital appreciation bonds - 2000	1,320,325	1,171,858
Total	\$ 21,680,325	\$ 22,271,858

The District issued the 1984 series general obligation bonds on February 1, 1984, to provide funds for purpose of constructing and equipping a new middle school and improving the site thereof. The annual interest rate is 9.1250% and the bonds matured in fiscal 2005.

The District issued the 2000 series general obligation bonds on September 5, 2000 for building construction and improvements. The annual interest rate ranges from 4.30% to 5.50% and the bonds are scheduled to mature in fiscal 2028.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

At June 30, 2005, the District's overall legal debt margin was \$7,322,774 with an unvoted debt margin of \$290,438. The District's most recent bond issue maintained a Moody's Investors Service rating and a Fitch IBCA, Inc. rating of Aaa and AAA respectively on the understanding that the Bonds would be insured by Financial Guaranty Insurance Company upon their issuance. The District has received an underlying rating of A2 from Moody's.

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

Current Financial Related Activities

Overall, the District has remained financially stable the past few years. The District's financial stability is primarily attributable to a growing revenue base tied to a growing enrollment and increasing local tax collections combined with prudent and targeted spending. However, the future financial stability of the District is not without challenges. Some of the primary factors impacting the District's Operational funding are recapped below:

The next challenge facing the District is to continue meeting the demands of growth. The District's enrollment has grown tremendously in the last several years, and projections indicate that growth will continue in the future.

State Funding

The Issue - HB66 (the State's newly adopted biennial budget) includes some of the largest structural changes to school funding of any state budget in recent memory. The single largest change is related to the elimination of the tax imposed on general tangible personal property.

Considerations - Tangible tax values will be completely phased out over a four-year period starting with calendar year 2006. As a result, local tangible tax collections will begin to realize reductions in fiscal year 2007. According to provisions in the state's newly adopted biennial budget (HB66), the State will fully reimburse schools for losses associated with the tax elimination for the next five years (FY07 – FY11). After the full five-year reimbursement period, the State will phase-out the direct reimbursement they provide to schools. That phase-out will occur over the subsequent eight-year period. Fortunately for Teays Valley, the District's tangible tax base is not substantial. When the phase out is complete, Teays Valley stands to lose \$150,000 to \$200,000 of net funding per year. Some districts will lose millions.

Local Valuations:

The Issue – New residential and commercial real estate growth is anticipated to continue to increase approximately 7.5% per year. In addition, the District will undergo reappraisal in calendar year 2005 and 2008, which is expected to add another 15% and 10% respectively to residential values those years.

Considerations – Valuation growth drives local tax collection growth. However, it has the opposite effect on unrestricted state aid disbursements due to the 23 mill charge off included in the current funding formula. Unfortunately HB66 eliminated the incentive for schools to structure tax abatements and TIFF agreements, due to the fact that the underlying value of the abated property or TIFF will now be recognized in the 23 mill charge off.

Enrollment:

The Issue - The District anticipates student enrollment growth to continue to increase, adding over 400 students over the course of the next four years (FY07 and FY10).

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Considerations – Enrollment increases can positively impact funding, but on the other hand may also require additional expenditures to keep pace with the growth. The District needs to identify enrollment trends and make necessary adjustments. It is critical the District remains vigilant in identifying students for funding purposes.

Future Construction:

The Issue - The Ohio School Facilities Commission recently released its list of schools eligible to receive classroom facility assistance funding in FY07. Teays Valley is listed number 2 on the list of 10 schools.

Considerations - Renovation of the High School and Middle School as well as the addition of a new 5th & 6th grade building located in South Bloomfield and wing addition to Scioto Elementary will create the need for additional staffing in the year the new building is opened....see staffing below.

Staffing & Negotiated Increases:

The Issue - The District recently completed negotiations with both its certified and non-certified staff. The new contracts called for 3.50%, 3.25% and 3.00% base salary increases in FY06, FY07, and FY08 respectively. In addition, six new teaching positions, one educational aide and a bus driver are planned for FY06. Three new teachers and one new bus driver are planned for both FY07 and FY08. In FY09 (which corresponds to the planned opening of the new 5th / 6th grade building), five new teaching staff, two administrative staff, two custodial staff, one secretary and one additional bus driver is planned.

Considerations – Salaries are set for the upcoming three years (FY06 – FY08). The District will not have to bargain its next negotiated agreement until sometime in the spring/summer of 2008. Therefore the only area available for adjustment during this period is in staffing levels.

Health Insurance:

The Issue - Currently all employers are faced with the challenge of sky-rocketing health insurance increases. Forecasted health insurance increases are anticipated to run 12% per-year for the next four to five years.

Considerations - There are number of approaches that are possible to mitigate the large increases projected. However, it would require mid-term negotiating to affect a change. This is rather unlikely. A couple of ideas for the future would include: reducing benefit levels, increasing co-pays and deductibles... or do nothing and absorb the increases in health insurance but consider reductions to projected base salary increases (for example, instead of a base salary increases of 3%, consider a lesser increase in lieu of maintaining current health insurance provisions).

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Stacy Overly, Treasurer, Teays Valley Local School District, 385 Circleville Avenue, Ashville OH 43103-9417.

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**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 8,068,667
Cash and Cash Equivalents with fiscal agent.	658,454
Receivables:	
Taxes	8,996,242
Accounts	2,321
Intergovernmental	195,334
Accrued interest	35,311
Prepayments.	10,567
Materials and supplies inventory	44,822
Capital assets:	
Land	1,211,164
Depreciable capital assets, net	46,372,738
Total capital assets, net.	47,583,902
 Total assets	 65,595,620
 Liabilities:	
Accounts payable.	124,086
Contracts payable.	400
Accrued wages and benefits	1,994,348
Pension obligation payable.	552,745
Intergovernmental payable	126,290
Deferred revenue	7,009,371
Accrued interest payable	86,032
Claims payable	240,544
Long-term liabilities:	
Due within one year.	1,197,852
Due in more than one year	23,236,500
 Total liabilities	 34,568,168
 Net Assets:	
Invested in capital assets, net of related debt.	26,074,944
Restricted for:	
Capital projects	65,273
Debt service.	1,546,744
Classroom facilities maintenance	235,323
Locally funded programs	3,001
State funded programs	115
Federally funded programs	20,990
Student activities	32,850
Public school support	101,514
Other purposes	44,141
Unrestricted.	2,902,557
 Total net assets	 \$ 31,027,452

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 12,365,375	\$ 297,443	\$ 237,763	\$ (11,830,169)
Special	2,227,736	326	342,303	(1,885,107)
Vocational	726,083	-	1,359	(724,724)
Other	1,172	-	-	(1,172)
Support services:				
Pupil	1,044,853	1,337	55,493	(988,023)
Instructional staff	1,267,683	42,728	411,633	(813,322)
Board of education	77,043	-	-	(77,043)
Administration	2,151,820	1,509	184,039	(1,966,272)
Fiscal	503,305	-	2,699	(500,606)
Business	99,041	-	-	(99,041)
Operations and maintenance	2,693,351	-	770	(2,692,581)
Pupil transportation	1,392,166	-	1,423	(1,390,743)
Central	173,016	-	15,000	(158,016)
Operation of non-instructional services	264	-	-	(264)
Food service operations	1,108,627	564,324	346,806	(197,497)
Extracurricular activities	545,959	131,294	-	(414,665)
Intergovernmental	13,479	-	-	(13,479)
Interest and fiscal charges	1,262,308	-	-	(1,262,308)
Totals	\$ 27,653,281	\$ 1,038,961	\$ 1,599,288	(25,015,032)
General Revenues:				
Property taxes levied for:				
General purposes				7,236,909
Classroom facilities maintenance				135,442
Debt service				1,626,371
Grants and entitlements not restricted to specific programs				15,842,447
Investment earnings				200,105
Miscellaneous				174,204
Total general revenues				25,215,478
Change in net assets				200,446
Net assets, July 1				30,827,006
Net assets, June 30				\$ 31,027,452

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 4,651,877	\$ 1,358,428	\$ 1,782,601	\$ 7,792,906
Receivables:				
Taxes	7,129,715	1,866,527	-	8,996,242
Accounts	2,321	-	-	2,321
Intergovernmental	-	-	126,851	126,851
Accrued interest	27,754	5,414	2,143	35,311
Interfund loans	1,833	-	-	1,833
Materials and supplies inventory	26,470	-	18,352	44,822
Prepayments	10,567	-	-	10,567
Restricted assets:				
Equity in pooled cash and cash equivalents	33,141	-	-	33,141
Total assets	<u>\$ 11,883,678</u>	<u>\$ 3,230,369</u>	<u>\$ 1,929,947</u>	<u>\$ 17,043,994</u>
Liabilities:				
Accounts payable	\$ 119,161	\$ -	\$ 4,925	\$ 124,086
Contracts payable	-	-	400	400
Accrued wages and benefits	1,822,750	-	171,598	1,994,348
Compensated absences payable	231,594	-	5,334	236,928
Pension obligation payable	494,438	-	58,307	552,745
Intergovernmental payable	119,346	-	6,944	126,290
Interfund loan payable	-	-	1,833	1,833
Deferred revenue	5,703,720	1,687,033	571	7,391,324
Total liabilities	<u>8,491,009</u>	<u>1,687,033</u>	<u>249,912</u>	<u>10,427,954</u>
Fund Balances:				
Reserved for encumbrances	438,028	-	257,990	696,018
Reserved for prepayments	10,567	-	-	10,567
Reserved for materials and supplies inventory	26,470	-	18,352	44,822
Reserved for property tax unavailable for appropriation	601,200	178,444	-	779,644
Reserved for debt service	-	1,364,892	-	1,364,892
Reserved for school bus purchases	33,141	-	-	33,141
Unreserved, undesignated, reported in:				
General fund	2,283,263	-	-	2,283,263
Special revenue funds	-	-	724,584	724,584
Capital projects funds	-	-	679,109	679,109
Total fund balances	<u>3,392,669</u>	<u>1,543,336</u>	<u>1,680,035</u>	<u>6,616,040</u>
Total liabilities and fund balances	<u>\$ 11,883,678</u>	<u>\$ 3,230,369</u>	<u>\$ 1,929,947</u>	<u>\$ 17,043,994</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005**

Total governmental fund balances		\$ 6,616,040
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		47,583,902
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 368,504	
Earnings on investments	<u>13,449</u>	
Total		381,953
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		729,013
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(86,032)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(21,680,325)	
Capital lease obligation	(670,077)	
Compensated absences	<u>(1,847,022)</u>	
Total		<u>(24,197,424)</u>
Net assets of governmental activities		<u>\$ 31,027,452</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 7,327,991	\$ 1,673,213	\$ 135,442	\$ 9,136,646
Tuition.	43,907	-	-	43,907
Charges for services	-	-	564,324	564,324
Classroom materials and fees	85,921	-	234	86,155
Earnings on investments.	127,009	29,186	36,760	192,955
Extracurricular.	-	-	313,349	313,349
Other local revenues.	16,312	-	93,422	109,734
Other revenue.	95,483	27,131	5,947	128,561
Intergovernmental - state	15,599,731	204,855	190,653	15,995,239
Intergovernmental - federal.	10,730	-	1,409,293	1,420,023
Total revenues	<u>23,307,084</u>	<u>1,934,385</u>	<u>2,749,424</u>	<u>27,990,893</u>
Expenditures:				
Current:				
Instruction:				
Regular	11,418,121	-	475,042	11,893,163
Special.	1,903,466	-	345,157	2,248,623
Vocational.	684,487	-	1,359	685,846
Other	1,172	-	-	1,172
Support Services:				
Pupil.	987,865	-	78,107	1,065,972
Instructional staff	797,645	-	467,304	1,264,949
Board of education	74,055	-	-	74,055
Administration.	1,969,677	-	195,831	2,165,508
Fiscal	460,459	31,276	16,535	508,270
Business	47,521	-	-	47,521
Operations and maintenance.	2,253,168	-	122,410	2,375,578
Pupil transportation	1,559,003	-	1,535	1,560,538
Central.	116,585	-	15,000	131,585
Operation of non-instructional services	256	-	8	264
Food service operations	-	-	932,382	932,382
Extracurricular activities.	384,057	-	108,584	492,641
Intergovernmental	-	-	13,479	13,479
Facilities acquisition and construction	-	-	1,154,258	1,154,258
Capital outlay	515,199	-	-	515,199
Debt service:				
Principal retirement	268,361	740,000	-	1,008,361
Interest and fiscal charges	13,845	1,101,232	-	1,115,077
Total expenditures	<u>23,454,942</u>	<u>1,872,508</u>	<u>3,926,991</u>	<u>29,254,441</u>
Excess of revenues over (under) expenditures	(147,858)	61,877	(1,177,567)	(1,263,548)
Other financing sources (uses):				
Transfers in.	-	-	1,040,851	1,040,851
Transfers (out)	(4,926)	(41,910)	(994,015)	(1,040,851)
Capital lease transaction	515,199	-	-	515,199
Total other financing sources (uses)	<u>510,273</u>	<u>(41,910)</u>	<u>46,836</u>	<u>515,199</u>
Net change in fund balances	362,415	19,967	(1,130,731)	(748,349)
Fund balances, July 1 (restated-See Note 3)	3,041,023	1,523,369	2,810,195	7,374,587
Increase (decrease) in reserve for inventory	(10,769)	-	571	(10,198)
Fund balances, June 30	<u>\$ 3,392,669</u>	<u>\$ 1,543,336</u>	<u>\$ 1,680,035</u>	<u>\$ 6,616,040</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Net change in fund balances - total governmental funds \$ (748,349)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital asset additions	\$ 1,903,155	
Current year depreciation	<u>(1,420,116)</u>	
Total		483,039

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported on each disposal.

(6,566)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes	(137,924)	
Intergovernmental revenue	(6,605)	
Accrued interest	<u>7,363</u>	
Total		(137,166)

Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.

(10,198)

Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

1,008,361

Proceeds of capital lease transactions are recorded as revenue in the funds however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.

(515,199)

In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.

Accrued interest	1,236	
Accreted interest on capital appreciation bonds	<u>(148,467)</u>	
Total		(147,231)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(125,447)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

399,202

Change in net assets of governmental activities \$ 200,446

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 6,756,938	\$ 7,119,913	\$ 7,119,996	\$ 83
Tuition	24,000	45,254	45,255	1
Earnings on investments	65,085	102,923	102,924	1
Classroom materials and fees	79,000	85,920	85,921	1
Other local revenue	32,550	15,795	15,795	-
Other revenue	1,500	94,712	94,713	1
Intergovernmental - state	14,886,910	15,599,550	15,599,731	181
Intergovernmental - federal	50,000	15,886	15,886	-
	<u>21,895,983</u>	<u>23,079,953</u>	<u>23,080,221</u>	<u>268</u>
Expenditures:				
Current:				
Instruction:				
Regular	12,219,094	11,775,014	11,409,793	365,221
Special	2,044,706	2,077,427	1,892,886	184,541
Vocational	708,544	733,575	711,790	21,785
Other	1,174	1,174	1,173	1
Support services:				
Pupils	967,884	1,037,810	986,306	51,504
Instructional staff	837,293	888,241	822,383	65,858
Board of education	125,674	136,323	98,714	37,609
Administration	2,267,517	2,287,142	1,907,063	380,079
Fiscal	451,341	455,167	414,204	40,963
Business	217,353	217,353	180,861	36,492
Operations and maintenance	3,028,844	3,127,675	2,439,164	688,511
Pupil transportation	1,516,285	1,627,744	1,560,938	66,806
Central	101,490	117,415	111,549	5,866
Operation of non-instructional services	-	255	255	-
Extracurricular activities	510,595	543,649	466,399	77,250
	<u>24,997,794</u>	<u>25,025,964</u>	<u>23,003,478</u>	<u>2,022,486</u>
Total expenditures				
Excess of revenues over (under) expenditures	<u>(3,101,811)</u>	<u>(1,946,011)</u>	<u>76,743</u>	<u>2,022,754</u>
Other financing sources (uses):				
Advances in	42,926	46,035	46,036	1
Advances (out)	-	-	(4,943)	(4,943)
Transfers (out)	(50,000)	(21,830)	(5,900)	15,930
Refund of prior year's receipt	-	-	268	268
Refund of prior year's expenditures	10,000	17,900	17,900	-
	<u>2,926</u>	<u>42,105</u>	<u>53,361</u>	<u>11,256</u>
Total other financing sources (uses)				
Net change in fund balance	<u>(3,098,885)</u>	<u>(1,903,906)</u>	<u>130,104</u>	<u>2,034,010</u>
Fund balance, July 1	<u>3,314,606</u>	<u>3,314,606</u>	<u>3,314,606</u>	<u>-</u>
Prior year encumbrances appropriated	<u>364,329</u>	<u>364,329</u>	<u>364,329</u>	<u>-</u>
Fund balance, June 30	<u>\$ 580,050</u>	<u>\$ 1,775,029</u>	<u>\$ 3,809,039</u>	<u>\$ 2,034,010</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005**

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and cash equivalents	\$ 242,620
Cash with fiscal agent	658,454
Receivables:	
Intergovernmental	68,483
Total assets	969,557
Liabilities:	
Claims payable.	240,544
Total liabilities.	240,544
Net assets:	
Unrestricted	729,013
Total net assets.	\$ 729,013

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 2,811,005
Total operating revenues	2,811,005
Operating expenses:	
Fringe benefits	106,118
Claims and administrative services	2,305,685
Total operating expenses	2,411,803
Change in net assets.	399,202
Net assets, July 1.	329,811
Net assets, June 30.	\$ 729,013

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 2,846,804
Cash payments for fringe benefits.	(106,118)
Cash payments for claims and administrative services	(2,258,945)
Net cash used in operating activities.	481,741
Net increase in cash and cash equivalents	481,741
Cash and cash equivalents, July 1	419,333
Cash and cash equivalents, June 30	\$ 901,074
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 399,202
Changes in assets and liabilities:	
Decrease in intergovernmental receivable.	35,799
Increase in claims payable	46,740
Net cash used in operating activities	\$ 481,741

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 10,000	\$ 65,265
Total assets	<u>\$ 10,000</u>	<u>\$ 65,265</u>
Liabilities:		
Accounts payable	-	\$ 15,874
Due to students	-	49,391
Total liabilities	<u>-</u>	<u>\$ 65,265</u>
Net Assets:		
Held in trust for scholarships	<u>10,000</u>	
Total net assets	<u>\$ 10,000</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	
Additions:		
Interest	\$	50
Total additions.		<u>50</u>
Deductions:		
Scholarships awarded		<u>193</u>
Change in net assets		(143)
Net assets, July 1		<u>10,143</u>
Net assets, June 30	\$	<u><u>10,000</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Teays Valley Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (five members) and is responsible for the provision of public education to residents of the District.

The District ranks as the 135th largest by total enrollment among the 688 public school District's in the State. The District employed 237 certified employees and 122 non-certificated employees who provided services to 3,368 students. The District is supervised by the Pickaway County Educational Service Center, a separate entity.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

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

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATION

Metropolitan Education Council (MEC) - Is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District paid \$21,000 to MEC for services provided during fiscal 2005.

Central Ohio Special Education Regional Resource Center

The Central Ohio Special Education Regional Resource Center (COSERRC) is a jointly governed organization operated by a Governing Board that is composed of superintendents of member school districts in central Ohio which comprise sixty percent of the Board, two parents of children with disabilities, one representative of a chartered nonpublic school, one representative of a county board of Mental Retardation and Development Disabilities, representatives of universities and students and persons with disabilities representations. COSERRC assists the District in complying with mandates of Public Law 99-456 for educating children with disabilities. There is no financial commitment made by the districts involved in COSERRC. COSERRC is not dependent upon the continued participation of the District and the District does not maintain an equity interest in or financial responsibility for the Council.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Program (GRP)

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program was established as an insurance purchasing pool and is governed by a three-member Board of Directors. The Executive Director of the Ohio School Boards Association, or his/her designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 13.B. for further information on this group rating plan.

Ross County School Employees Insurance Consortium

The District is a member of the Ross County School Employees Insurance Consortium (the "Consortium"), a claims servicing pool consisting of fourteen school districts within Ross County and its surrounding area. Medical/surgical insurance is administered through a third party administrator, Medical Mutual of Ohio. The Consortium's business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to Westfall Local School District, Scott Glandon, who serves as Treasurer, at 19463 Pherson Pike, Williamsport, Ohio 43164.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest from governmental resources when the government is obligated in some manner for payment.

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

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The internal service fund accounts for the District self-insurance program which provides health/medical and dental benefits to employees.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

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

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

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for services. Operating expenses for the internal service fund includes the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus as it does not report operations.

D. Basis of Accounting

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

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

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

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

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows.

1. 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 expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Pickaway County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original and final budgeted revenues in the budgetary statement reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2005.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level for all funds, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.)

Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed appropriations totals.

5. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education throughout the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. The original and final budget figures, which appear in the statement of budgetary comparisons, represent the permanent appropriation (original budget) amounts plus all supplemental appropriations legally enacted during the year (final budget amounts).
8. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

F. Cash and Investments

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

During fiscal year 2005, investments were limited to nonnegotiable certificates of deposits, investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2005. 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, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenues credited to the general fund during fiscal year 2005 amounted to \$127,009 which includes \$32,461 assigned from other District funds.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Cash and Investments – (Continued)

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents.

An analysis of the District's investments at year-end is provided in Note 4.

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method. On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis and is expensed when purchased.

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental type activities columns of the Statement of Net Assets.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Fund Balance Reserves

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

N. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

O. Estimates

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

P. Net Assets

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

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

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

R. Interfund Activity

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major governmental funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 3,176,950	\$ 1,523,369	\$ 2,837,681	\$ 7,538,000
GASB Technical Bulletin No. 2004-2	<u>(135,927)</u>	<u>-</u>	<u>(27,486)</u>	<u>(163,413)</u>
Restated Fund Balance, June 30, 2004	<u>\$ 3,041,023</u>	<u>\$ 1,523,369</u>	<u>\$ 2,810,195</u>	<u>\$ 7,374,587</u>

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balance

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Management Information Systems	\$ 604
Disadvantaged Pupil Impact Fund	8,468
Ohio Reads	92
Summer Intervention	132
Title I	4,031
Reducing Class Size	5,138
Miscellaneous Federal Grants	44

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

NOTE 4 – EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

Inactive deposits are public deposits 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 moneys 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 or deposit accounts including passbook accounts.

Protection of 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 to 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;

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 – EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date 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, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Cash on Hand

At year-end, the District had \$15 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$7,181,398 which includes \$658,454 cash with fiscal agent. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$7,133,519 of the District's bank balance of \$7,533,519 was exposed to custodial risk as discussed below, while \$400,000 was covered by Federal Deposit Insurance Corporation.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 – EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

B. Deposits with Financial Institutions (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>
STAR Ohio	\$ 1,423,613	\$ 1,423,613	\$ -	\$ -
FHLB	197,360	-	-	197,360
	<u>\$ 1,620,973</u>	<u>\$ 1,423,613</u>	<u>\$ -</u>	<u>\$ 197,360</u>

The weighted average maturity of investments is .17 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 1,423,613	87.80%
FHLB	197,360	12.20%
	<u>\$ 1,620,973</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 4 – EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

D. Reconciliation of Cash and Investment to the Statement of Net Assets (Continued)

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 7,181,398
Investments	1,620,973
Cash on hand	15
Total	<u>\$ 8,802,386</u>

<u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 8,727,121
Private-purpose trust funds	10,000
Agency funds	65,265
Total	<u>\$ 8,802,386</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances consisted of the following at June 30, 2005, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,833

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

- B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

<u>Transfers to Nonmajor Governmental funds from:</u>	
General Fund	\$ 4,926
Debt Service	41,910
Nonmajor Government funds	994,015

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Fairfield, Franklin and Pickaway Counties. The County Auditors periodically advances to the District their portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance the current year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$601,200 in the general fund and \$178,444 in the debt service fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2004 was \$497,920 in the general fund and \$173,506 in the debt service fund.

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

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 186,784,480	84.60	\$ 263,778,450	90.82
Public utility personal	25,200,720	11.41	19,780,320	6.81
Tangible personal property	<u>8,810,829</u>	<u>3.99</u>	<u>6,879,433</u>	<u>2.37</u>
Total	<u>\$ 220,796,029</u>	<u>100.00</u>	<u>\$ 290,438,203</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 33.60		\$ 33.60	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 8,996,242
Accounts	2,321
Intergovernmental	195,334
Accrued interest	<u>35,311</u>
Total	<u>\$ 9,229,208</u>

Receivables have been disaggregated on the face of the financial statements. All receivables are expected to be collected within one year.

NOTE 8 - INCOME TAX

The District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the state. Taxpayers are required to file an annual return. The state makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2005</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 445,549	\$ 765,615	\$ -	\$ 1,211,164
Construction in progress	<u>40,526,733</u>	<u>-</u>	<u>(40,526,733)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>40,972,282</u>	<u>765,615</u>	<u>(40,526,733)</u>	<u>1,211,164</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	860,797	3,424,516	-	4,285,313
Buildings and improvements	7,769,439	37,198,696	-	44,968,135
Furniture and equipment	4,084,393	726,936	(18,364)	4,792,965
Vehicles	<u>1,358,831</u>	<u>314,125</u>	<u>(93,303)</u>	<u>1,579,653</u>
Total capital assets, being depreciated	<u>14,073,460</u>	<u>41,664,273</u>	<u>(111,667)</u>	<u>55,626,066</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(654,655)	(118,872)	-	(773,527)
Buildings and improvements	(5,315,685)	(802,590)	-	(6,118,275)
Furniture and equipment	(1,265,404)	(343,748)	11,798	(1,597,354)
Vehicles	<u>(702,569)</u>	<u>(154,906)</u>	<u>93,303</u>	<u>(764,172)</u>
Total accumulated depreciation	<u>(7,938,313)</u>	<u>(1,420,116)</u>	<u>105,101</u>	<u>(9,253,328)</u>
Governmental activities capital assets, net	<u>\$ 47,107,429</u>	<u>\$ 41,009,772</u>	<u>\$ (40,533,299)</u>	<u>\$ 47,583,902</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 977,775
Special	2,323
Vocational	37,523

Support Services:

Pupil	5,318
Instructional staff	15,051
Board of education	6,296
Administration	8,324
Fiscal	603
Business	51,520
Operations and maintenance	16,282
Pupil transportation	167,203
Central	42,647
Extracurricular activities	46,569
Food service operations	<u>42,682</u>

Total depreciation expense \$ 1,420,116

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 10 - CAPITALIZED LEASE - LESSEE DISCLOSURE

During fiscal 2005, the District entered into a capitalized lease for copier equipment. In prior fiscal years, the District entered into capitalized leases for fitness and computer equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the statement of net assets. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$268,361 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 265,589
2007	138,421
2008	121,691
2009	121,691
2010	<u>121,691</u>
Total minimum lease payments	769,083
Less amount representing interest	<u>(99,006)</u>
Total	<u>\$ 670,077</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Balance at June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at June 30, 2005</u>	<u>Amounts Due in One Year</u>
General obligation bonds	\$ 22,271,858	\$ 148,467	\$ (740,000)	\$ 21,680,325	\$ 610,000
Capital lease obligation	423,239	515,199	(268,361)	670,077	227,989
Compensated absences	<u>1,829,849</u>	<u>511,677</u>	<u>(257,576)</u>	<u>2,083,950</u>	<u>359,863</u>
Total	<u>\$ 24,524,946</u>	<u>\$ 1,175,343</u>	<u>\$ (1,265,937)</u>	<u>\$ 24,434,352</u>	<u>\$ 1,197,852</u>

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- B. *General Obligation Bonds – Series 1984:* These bonds were paid off in fiscal year 2005 and related to a project for which bonds were issued on February 1, 1984, for the purpose of constructing and equipping a new middle school and improving the site thereof. These bonds are in full compliance with the general laws of the State of Ohio, particularly Sections 133.01 to 133.48, inclusive, of the Ohio Revised Code and Section 133.09 thereof. The bonds bear an annual interest rate of 9.1250%.

General Obligation Bonds – Series 2000: On September 5, 2000, the District issued general obligation bonds to finance building construction and improvements. This issue is comprised of serial bonds, par value \$7,520,000, current interest term bonds (shown as general obligation bonds in the table above), par value in the amounts of \$4,975,000 and \$9,605,000 respectively, and capital appreciation bonds, par value \$750,286. The serial bonds will be paid from 2001-2015 at interest rates from 4.30% to 5.25%. The term bonds will be paid from 2016-2027 at an interest rates from 5.375% to 5.50%. The capital appreciation bonds will be paid from 2007-2009 at an interest rate of 12.29% at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2005 was \$750,286. A total of \$570,309 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2005.

The term bonds maturing on December 1, 2020 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, from 2016 through 2019 at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2016	\$ 895,000
2017	940,000
2018	995,000
2019	1,045,000

Unless otherwise called for redemption, the remaining \$1,100,000 principal amount of the term bonds due December 1, 2020 is to be paid at stated maturity.

The term bonds maturing on December 1, 2027 are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, from 2021 through 2026 at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2021	\$ 1,160,000
2022	1,225,000
2023	1,295,000
2024	1,365,000
2025	1,440,000
2026	1,520,000

Unless otherwise called for redemption, the remaining \$1,600,000 principal amount of the term bonds due December 1, 2020 is to be paid at stated maturity.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The current interest bonds maturing after December 1, 2010 are subject to redemption at the option of the District, either in whole or in part, in such order as the District shall determine, on any interest payment date on or after December 1, 2010, at 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issues is December 1, 2027.

The following is a schedule of activity for the general obligation bonds:

	Balance 06/30/04	Additions	Reductions	Balance 06/30/05
General obligation bonds				
1984 Series	\$ 170,000	\$ -	\$ (170,000)	\$ -
General obligation bonds				
2000 Series	20,930,000	-	(570,000)	20,360,000
Capital appreciation bonds -				
2000 Series	1,171,858	148,467	-	1,320,325
Total	\$ 22,271,858	\$ 148,467	\$ (740,000)	\$ 21,680,325

The following is a summary of the future debt service requirements to maturity for the general obligation bonds:

Fiscal Year Ending June 30	General Obligation Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 610,000	\$ 1,066,284	\$ 1,676,284	\$ -	\$ -	\$ -
2007	640,000	1,038,312	1,678,312	-	-	-
2008	-	1,023,911	1,023,911	280,444	384,556	665,000
2009	-	1,023,911	1,023,911	248,916	416,084	665,000
2010	-	1,023,911	1,023,911	220,926	444,074	665,000
2011 - 2015	3,680,000	4,685,349	8,365,349	-	-	-
2016 - 2020	4,725,000	3,597,729	8,322,729	-	-	-
2021 - 2025	6,145,000	2,134,827	8,279,827	-	-	-
2026 - 2028	4,560,000	385,000	4,945,000	-	-	-
Total	\$ 20,360,000	\$ 15,979,234	\$ 36,339,234	\$ 750,286	\$ 1,244,714	\$ 1,995,000

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2005, are a voted debt margin of \$7,322,774 (including available funds of \$1,543,336) and an unvoted debt margin of \$290,438.

NOTE 12 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and state laws. Only administrative and support personnel who are under a full year contract (11 and 12 month) are eligible for vacation time. The administrators are generally granted twenty days of vacation per year.

Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Any vacation time which is unused as of the employee's anniversary date is expired and not available for use in a subsequent year unless approved by the Superintendent. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

The classified personnel accumulate vacation based on the following schedule:

<u>Years Service</u>	<u>Vacation Days</u>
0 - 9	10
10 - 19	15
20 - beyond	20

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for all employees, except administrators and 260 day and classified employees, is 210 days; 260 day administrators and classified employees may accumulate 295 days of sick leave. 205 day administrators may accumulate 232 days per year, based on 113 percent of teacher's accumulation of 210 days of sick leave for 185 days of service.

For all employees, retirement severance is paid to each employee retiring from the District at a per diem rate of the annual salary at the time of retirement. Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to a maximum of fifty two and one-half days. Additionally, the teachers of the District receive an additional retirement severance of \$10,000 if retirement is taken the first year of eligibility. Longevity pay of \$1,000 is granted to certified employees with twenty five or more years of service. The superintendent is entitled to one half of all accumulated sick leave.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - RISK MANAGEMENT

A. General Risk

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$2,000,000 in the aggregate, plus \$1,000,000 umbrella.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss, plus \$1,000,000 umbrella.

The District maintains replacement cost insurance on buildings and contents in the amount of \$63,082,116. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions of coverage from the prior years.

B. Workers' Compensation - Public Entity Risk Pool

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (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 Ohio School Boards Association (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.

The intent of the GRP is to achieve the benefit of a reduced premium for the 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. Each district is then placed at one of fourteen separate levels based on that district's experience. Each participant pays its workers' compensation premium to the state based on the rate for the group level 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.

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.

C. Health Insurance

In October, 1994, the District joined the Ross County School Employees Insurance Consortium (RCSEIC) to self-insure its medical claims. RCSEIC currently includes 14 member school districts. Contributions are determined by the consortium's board of directors and are remitted monthly to the consortium's fiscal agent, who then pays all incurred claims. Thus actual cash "reserves" are held by the fiscal agent. Settlements have never exceeded insurance coverage.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - RISK MANAGEMENT – (Continued)

C. Health Insurance – (Continued)

Medical Mutual of Ohio, a third party administrator, services all health/medical claims and Professional Risk Management, Inc., a third party administrator, services all dental claims submitted by employees. An excess coverage insurance policy covers individual medical claims in excess of \$100,000 per employee consortium wide.

The District utilizes a self-insurance fund for the purpose of tracking the fund's balance as held by the fiscal agent. Amounts are paid into this fund from the general fund, food service fund, and certain special revenue funds (grants). Expenses for claims are recorded as other expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The basis for estimating the liability for unpaid claims is based on documentation obtained by the insurance carrier. A summary of changes in self-insurance claims for the years ended June 30, 2005 and June 30, 2004:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Claims liabilities at beginning of fiscal year	\$ 193,804	\$ 138,800
Incurred claims	2,305,685	1,452,457
Claims paid	<u>(2,258,945)</u>	<u>(1,397,453)</u>
Claims liabilities at end of fiscal year	<u>\$ 240,544</u>	<u>\$ 193,804</u>

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$312,199, \$242,521 and \$185,618, respectively; 31.69% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$213,264 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS – (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,576,293, \$1,455,032, and \$1,340,508, respectively; 82.207% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$280,543 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$6,419 made by the District and \$21,528 made by plan members.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 14 - 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 Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 15 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$121,253 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$142,267 during the 2005 fiscal year.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis); and
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).
- (d) Certain funds that are classified as part of the general fund (GAAP basis) are reported in other fund types on a cash basis (budget basis). These items are reflected as "fund reclassifications".

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 130,104
Net adjustment for revenue accruals	226,863
Net adjustment for expenditure accruals	(844,686)
Net adjustment for other sources/uses	456,912
Adjustment for encumbrances	518,276
Adjustment for fund reclassification	<u>(125,054)</u>
GAAP basis	<u>\$ 362,415</u>

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2005.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 17 – CONTINGENCIES – (Continued)

B. Litigation

The District is a party to a legal proceeding at June 30, 2005. The District’s management is of the opinion that the ultimate disposition of the legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. School Funding Decision

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

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

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

NOTE 18 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	Textbooks	Capital Maintenance
Set-aside cash balance as of June 30, 2004	\$ -	\$ -
Current year set-aside requirement	454,851	454,851
Qualifying disbursements	(603,469)	(761,367)
Total	\$ (148,618)	\$ (306,516)
Balance carried forward to FY 2006	\$ -	\$ -

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero. The negative amount is therefore not presented as being carried forward to the next fiscal year.

A schedule of the restricted assets at June 30, 2005 follows:

Amount restricted for school bus purchase	\$33,141
Total restricted assets	\$33,141

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS

A. The District refunded \$18,444,995 of the general obligation bonds outstanding on July 28, 2005 by issuing \$17,279,000 in current interest bonds and \$274,995 in capital appreciation bonds.

B. District Treasurer

The Treasurer, Marcia Clark, resigned as Treasurer on June 30, 2005. Stacy Overly was appointed as Treasurer as of July 1, 2005.

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Number	Federal C.F.D.A. Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$78,737	\$0	\$78,737
National School Breakfast Program	049098-05-PU 2004	10.553	5,179	0	5,179	0
National School Breakfast Program	049098-05-PU 2005	10.553	24,513	0	24,513	0
<i>Total National School Breakfast Program</i>			29,692	0	29,692	0
National School Lunch Program	049098-LL-P4 -2004	10.555	60,734	0	60,734	0
National School Lunch Program	049098-LL-P4-2005	10.555	197,065	0	197,065	0
<i>Total National School Lunch Program</i>			257,799	0	257,799	0
<i>Total Child Nutrition Cluster</i>			287,491	78,737	287,491	78,737
TOTAL U.S. DEPARTMENT OF AGRICULTURE			287,491	78,737	287,491	78,737
U.S. DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies						
Title I Grants to Local Education Agencies	049098-C1-S1 2004	84.010	32,639	0	53,636	0
Title I Grants to Local Education Agencies	049098-C1-S1 2005	84.010	276,947	0	276,319	0
<i>Total Title I Grants to Local Education Agencies</i>			309,586	0	329,955	0
Special Education Cluster:						
Special Education Grants to States	049098-6B-SD - 2005	84.027	14,150	0	5,325	0
Special Education Grants to States	049098-6B-SF - 2004	84.027	72,453	0	62,959	0
Special Education Grants to States	049098-6B-SF - 2005	84.027	460,963	0	452,362	0
<i>Total Special Education Grants to States</i>			547,566	0	520,646	0
Special Education - Preschool Grant	049098-PG-S1 - 2004	84.173	0	0	10	0
Special Education - Preschool Grant	049098-PG-S1 - 2005	84.173	16,808	0	16,770	0
<i>Total Special Education - Preschool Grant</i>			16,808	0	16,780	0
<i>Total Special Education Cluster</i>			564,374	0	537,426	0
Safe and Drug-Free Schools State Grants						
Safe and Drug-Free Schools State Grants	049098-DR-S1 - 2004	84.186	98	0	1,200	0
Safe and Drug-Free Schools State Grants	049098-DR-S1 - 2005	84.186	14,908	0	13,333	0
<i>Total Safe and Drug-Free Schools State Grants</i>			15,006	0	14,533	0
State Grants for Innovative Educational Program Strategies						
State Grants for Innovative Educational Program Strategies	049098-C2-S1 - 2004	84.298	(1,708)	0	0	0
State Grants for Innovative Educational Program Strategies	049098-C2-S1 - 2005	84.298	20,378	0	20,378	0
<i>Total State Grants for Innovative Educational Program Strategies</i>			18,670	0	20,378	0
Education Technology State Grants						
Education Technology State Grants	049098-TJ-S1 - 2004	84.318	174	0	0	0
Education Technology State Grants	049098-TJ-S1 - 2005	84.318	18,012	0	18,012	0
<i>Total Education Technology State Grants</i>			18,186	0	18,012	0
Improving Teacher Quality State Grants						
Improving Teacher Quality State Grants	049098-TR-S1 - 2004	84.367	9,469	0	10,933	0
Improving Teacher Quality State Grants	049098-TR-S1 - 2005	84.367	120,684	0	119,475	0
<i>Total Improving Teacher Quality State Grants</i>			130,153	0	130,408	0
TOTAL U.S. DEPARTMENT OF EDUCATION			1,055,975	0	1,050,712	0
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through the Ohio Department of MRDD</i>						
State Children's Health Insurance Program	31-6402688	93.767	183	0	183	0
Medical Assistance Program	31-6402688	93.778	15,703	0	15,703	0
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			15,886	0	15,886	0
TOTALS			\$1,359,352	\$78,737	\$1,354,089	\$78,737

The accompanying notes to this schedule are an integral part of this schedule

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
JUNE 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

NOTE C- TRANSFERS DUE TO ODE ADMINISTRATIVE ACTION

The District transferred between the 2004 grant award to the 2005 grant award during fiscal year 2005 for the following: CFDA #'s 84.010-\$3,443, and 84.298- \$1,708. However, the transfer of \$3,443 for CFDA #84.010 was offset by \$36,082 in receipts received during fiscal year 2005, which resulted in the receipt on the federal schedule for CFDA #84.010 of \$32,639. This was due to the revised Comprehensive Continuous Improvement Plan Strategy (CCIP) as of July, 2002 which is an attempt to promote consistency between fiscal periods, allows the local agencies to manage one Ohio Department of Education project at a time, and eliminates refunds to Ohio Department of Education.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Teays Valley Local School District
Pickaway County
385 Circleville Avenue
Ashville, Ohio 43103

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Teays Valley Local School District, Pickaway County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 10, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated February 10, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated February 10, 2006, we reported an other matter related to noncompliance we deemed immaterial.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 10, 2006



**Auditor of State
Betty Montgomery**

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

Teays Valley Local School District
Pickaway County
385 Circleville Avenue
Ashville, Ohio 43103

To the Board of Education:

Compliance

We have audited the compliance of Teays Valley Local School District, Pickaway County, Ohio, (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

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Internal Control Over Compliance

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

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

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

February 10, 2006

**TEAYS VALLEY LOCAL SCHOOL DISTRICT
PICKAWAY COUNTY
JUNE 30, 2005**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster: Food Distribution Program – 10.550 National School Breakfast Program – 10.553 National School Lunch Program – 10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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TEAYS VALLEY LOCAL SCHOOL DISTRICT

PICKAWAY 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
MARCH 14, 2006**