



**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2002



**Auditor of State
Betty Montgomery**

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
General Purpose Financial Statements:	
Combined Balance Sheet – All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Funds.....	6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Funds	8
Combined Statement of Revenues, Expenses, and Changes in Fund Balances – Nonexpendable Trust Funds	11
Combined Statement of Cash Revenues, Expenses, and Changes in Fund Equity – Budget (Non-GAAP Basis) and Actual - Nonexpendable Trust Funds	12
Combined Statement of Cash Flows – Nonexpendable Trust Funds	13
Notes to the General Purpose Financial Statements	14
Schedule of Federal Awards Receipts and Expenditures	37
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	38
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	39
Independent Accountants' Report on Compliance With Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	41
Schedule of Findings.....	43
Schedule of Prior Audit Findings	47

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Twin Valley Community Local School District
Preble County
100 Education Drive
West Alexandria, Ohio 45381

To the Board of Education:

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

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

The District is experiencing certain financial difficulties. These conditions and management's plans to address these conditions are described in Note 20.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Twin Valley Community Local School District, Preble County, Ohio as of June 30, 2002, and the results of its operations and the cash flows of its nonexpendable trust funds 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 January 28, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

250 W. Court St. / Suite 150 E / Cincinnati, OH 45202
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

We performed our audit to form an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 28, 2003

This page intentionally left blank.

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Assets and Other Debits				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$508,082	\$328,893	\$185,147	\$320,208
Receivables:				
Property Taxes	2,432,054	35,481	332,650	0
Accounts	4,117	3,181	0	0
Intergovernmental	30,981	7,966	0	0
Accrued Interest	0	0	0	0
Prepaid Items	8,787	519	0	0
Inventory of Supplies and Materials	30,054	22,912	0	0
Fixed Assets	0	0	0	0
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Long-Term Obligations	0	0	0	0
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0	0
Total Assets and Other Debits	<u>\$3,014,075</u>	<u>\$398,952</u>	<u>\$517,797</u>	<u>\$320,208</u>
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accounts Payable	\$29,629	\$14,333	\$0	\$3,084
Accrued Wages Payable	547,557	26,023	0	0
Intergovernmental Payable	130,691	7,272	0	0
Due to Students	0	0	0	0
Deferred Revenue	2,381,014	38,325	324,020	0
Compensated Absences Payable	37,040	0	0	0
General Obligation Bonds Payable	0	0	0	0
Total Liabilities	<u>3,125,931</u>	<u>85,953</u>	<u>324,020</u>	<u>3,084</u>
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	40,394	11,626	0	14,800
Reserved for Property Taxes	51,314	1,078	8,630	0
Reserved for Endowments	0	0	0	0
Unreserved, Undesignated (Deficit)	(203,564)	300,295	185,147	302,324
Total Fund Equity (Deficit) and Other Credits	<u>(111,856)</u>	<u>312,999</u>	<u>193,777</u>	<u>317,124</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$3,014,075</u>	<u>\$398,952</u>	<u>\$517,797</u>	<u>\$320,208</u>

See Accompanying Notes to the General Purpose Financial Statements

FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
TRUST AND AGENCY			
\$124,298	\$0	\$0	\$1,466,628
0	0	0	2,800,185
90	0	0	7,388
0	0	0	38,947
58	0	0	58
0	0	0	9,306
0	0	0	52,966
0	20,517,539	0	20,517,539
0	0	193,777	193,777
0	0	3,728,711	3,728,711
<u>\$124,446</u>	<u>\$20,517,539</u>	<u>\$3,922,488</u>	<u>\$28,815,505</u>
\$4,970	\$0	\$0	\$52,016
0	0	0	573,580
10,420	0	65,756	214,139
30,702	0	0	30,702
0	0	0	2,743,359
0	0	186,732	223,772
0	0	3,670,000	3,670,000
<u>46,092</u>	<u>0</u>	<u>3,922,488</u>	<u>7,507,568</u>
0	20,517,539	0	20,517,539
0	0	0	66,820
0	0	0	61,022
68,777	0	0	68,777
9,577	0	0	593,779
<u>78,354</u>	<u>20,517,539</u>	<u>0</u>	<u>21,307,937</u>
<u>\$124,446</u>	<u>\$20,517,539</u>	<u>\$3,922,488</u>	<u>\$28,815,505</u>

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Revenues:				
Property Taxes	\$1,964,119	\$37,751	\$303,044	\$0
Charges for Services	0	274,971	0	0
Intergovernmental	4,061,827	502,989	35,392	80,392
Interest	28,050	874	0	7,245
Tuition and Fees	107,145	36,592	0	0
Rent	16,229	0	0	0
Extracurricular Activities	0	139,385	0	0
Miscellaneous	409,309	0	0	0
Gifts and Donations	0	0	0	675
Total Revenues	<u>6,586,679</u>	<u>992,562</u>	<u>338,436</u>	<u>88,312</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,991,212	98,914	0	80,211
Special	480,696	238,421	0	0
Vocational	240,081	1,912	0	0
Support Services:				
Pupils	196,270	17,325	0	0
Instructional Staff	285,371	14,424	0	42,204
Board of Education	89,336	0	0	0
Administration	774,885	13,092	7,244	0
Fiscal	137,480	5,500	0	0
Operation and Maintenance of Plant	667,410	17,048	0	0
Pupil Transportation	397,724	0	0	0
Central	52,172	6,077	0	0
Operation of Non-Instructional Services	0	400,146	0	0
Extracurricular Activities	145,523	137,874	0	0
Capital Outlay	383	0	0	25,723
Debt Service:				
Principal Retirement	0	0	110,000	0
Interest and Fiscal Charges	55	0	232,257	0
Total Expenditures	<u>6,458,598</u>	<u>950,733</u>	<u>349,501</u>	<u>148,138</u>
Excess of Revenues Over (Under) Expenditures	128,081	41,829	(11,065)	(59,826)
Other Financing Sources:				
Proceeds From Sale of Fixed Assets	153	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	128,234	41,829	(11,065)	(59,826)
Fund Balances (Deficit) at Beginning of Year	<u>(240,090)</u>	<u>271,170</u>	<u>204,842</u>	<u>376,950</u>
Fund Balances (Deficit) at End of Year	<u>(\$111,856)</u>	<u>\$312,999</u>	<u>\$193,777</u>	<u>\$317,124</u>

See Accompanying Notes to the General Purpose Financial Statement:

<u>FIDUCIARY FUND TYPE</u>	<u>TOTAL (MEMORANDUM ONLY)</u>
<u>EXPENDABLE TRUST</u>	
\$0	\$2,304,914
0	274,971
0	4,680,600
222	36,391
0	143,737
0	16,229
0	139,385
0	409,309
15,159	15,834
<u>15,381</u>	<u>8,021,370</u>
0	3,170,337
0	719,117
0	241,993
14,550	228,145
0	341,999
0	89,336
0	795,221
0	142,980
0	684,458
0	397,724
0	58,249
0	400,146
0	283,397
0	26,106
0	110,000
0	232,312
<u>14,550</u>	<u>7,921,520</u>
831	99,850
<u>0</u>	<u>153</u>
831	100,003
<u>8,384</u>	<u>621,256</u>
<u>\$9,215</u>	<u>\$721,259</u>

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	GENERAL FUND		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORBLE (UNFAVORABLE)
Revenues:			
Property Taxes	\$1,974,631	\$1,974,631	\$0
Charges for Services	0	0	0
Intergovernmental	4,059,760	4,059,760	0
Interest	29,553	29,553	0
Tuition and Fees	104,071	104,071	0
Rent	17,332	17,332	0
Extracurricular Activities	0	0	0
Miscellaneous	399,815	399,815	0
Gifts and Donations	0	0	0
Total Revenues	6,585,162	6,585,162	0
Expenditures:			
Current:			
Instruction:			
Regular	2,986,261	2,986,261	0
Special	531,009	531,009	0
Vocational	238,824	238,824	0
Support Services:			
Pupils	200,076	200,076	0
Instructional Staff	282,367	282,367	0
Board of Education	86,144	86,144	0
Administration	807,610	807,610	0
Fiscal	139,688	139,688	0
Operation and Maintenance of Plant	676,596	676,596	0
Pupil Transportation	424,045	424,045	0
Central	51,884	51,884	0
Operation of Non-Instructional			
Services	0	0	0
Extracurricular Activities	147,101	147,101	0
Capital Outlay	1,160	1,160	0
Debt Service:			
Principal Retirement	35,000	35,000	0
Interest and Fiscal Charges	55	55	0
Total Expenditures	6,607,820	6,607,820	0
Excess of Revenues Over (Under) Expenditures	(22,658)	(22,658)	0
Other Financing Sources:			
Refund of Prior Year Expenditures	29,252	29,252	0
Proceeds From Sale of Fixed Assets	153	153	0
Proceeds of Loan	35,000	35,000	0
Total Other Financing Sources	64,405	64,405	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	41,747	41,747	0
Fund Balances at Beginning of Year	327,835	327,835	0
Prior Year Encumbrances Appropriated	65,880	65,880	0
Fund Balances at End of Year	\$435,462	\$435,462	\$0

SPECIAL REVENUE FUNDS			DEBT SERVICE FUND		
REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$37,965	\$37,965	\$0	\$304,755	\$304,755	\$0
275,612	275,612	0	0	0	0
464,765	464,765	0	35,392	35,392	0
814	814	0	0	0	0
36,626	36,626	0	0	0	0
0	0	0	0	0	0
137,997	137,997	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
953,779	953,779	0	340,147	340,147	0
108,967	108,021	946	0	0	0
308,272	237,059	71,213	0	0	0
1,912	1,912	0	0	0	0
27,378	22,816	4,562	0	0	0
27,271	11,509	15,762	0	0	0
0	0	0	0	0	0
18,111	13,092	5,019	7,244	7,244	0
5,500	5,500	0	0	0	0
16,912	16,912	0	0	0	0
0	0	0	0	0	0
6,077	6,077	0	0	0	0
382,988	382,988	0	0	0	0
140,378	140,378	0	0	0	0
0	0	0	0	0	0
0	0	0	110,000	110,000	0
0	0	0	232,257	232,257	0
1,043,766	946,264	97,502	349,501	349,501	0
(89,987)	7,515	97,502	(9,354)	(9,354)	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(89,987)	7,515	97,502	(9,354)	(9,354)	0
280,947	280,947	0	194,501	194,501	0
11,129	11,129	0	0	0	0
\$202,089	\$299,591	\$97,502	\$185,147	\$185,147	\$0

(continued)

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (CONTINUED)**

	<u>CAPITAL PROJECTS FUNDS</u>			<u>EXPENDABLE TRUST FUNDS</u>		
	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:						
Property Taxes	\$0	\$0	\$0	\$0	\$0	\$0
Charges for Services	0	0	0	0	0	0
Intergovernmental	99,301	99,301	0	0	0	0
Interest	7,954	7,954	0	234	234	0
Tuition and Fees	0	0	0	0	0	0
Rent	0	0	0	0	0	0
Extracurricular Activities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Gifts and Donations	675	675	0	15,159	15,159	0
Total Revenues	<u>107,930</u>	<u>107,930</u>	<u>0</u>	<u>15,393</u>	<u>15,393</u>	<u>0</u>
Expenditures:						
Current:						
Instruction:						
Regular	81,621	77,388	4,233	0	0	0
Special	0	0	0	0	0	0
Vocational	0	0	0	0	0	0
Support Services:						
Pupils	0	0	0	3,700	3,700	0
Instructional Staff	86,725	50,172	36,553	0	0	0
Board of Education	0	0	0	0	0	0
Administration	0	0	0	0	0	0
Fiscal	0	0	0	0	0	0
Operation and Maintenance of Plant	0	0	0	0	0	0
Pupil Transportation	0	0	0	0	0	0
Central	0	0	0	0	0	0
Operation of Non-Instructional						
Services	0	0	0	0	0	0
Extracurricular Activities	0	0	0	0	0	0
Capital Outlay	35,789	35,789	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	<u>204,135</u>	<u>163,349</u>	<u>40,786</u>	<u>3,700</u>	<u>3,700</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>(96,205)</u>	<u>(55,419)</u>	<u>40,786</u>	<u>11,693</u>	<u>11,693</u>	<u>0</u>
Other Financing Sources:						
Refund of Prior Year Expenditures	0	0	0	0	0	0
Proceeds From Sale of Fixed Assets	0	0	0	0	0	0
Proceeds of Loan	0	0	0	0	0	0
Total Other Financing Sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	<u>(96,205)</u>	<u>(55,419)</u>	<u>40,786</u>	<u>11,693</u>	<u>11,693</u>	<u>0</u>
Fund Balances at Beginning of Year	345,650	345,650	0	11,056	11,056	0
Prior Year Encumbrances Appropriated	14,482	14,482	0	0	0	0
Fund Balances at End of Year	<u>\$263,927</u>	<u>\$304,713</u>	<u>\$40,786</u>	<u>\$22,749</u>	<u>\$22,749</u>	<u>\$0</u>

See Accompanying Notes to the General Purpose Financial Statements

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND BALANCES
 NONEXPENDABLE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Operating Revenues:

Interest	\$1,567
Contributions	63,777
Total Operating Revenues	<u>65,344</u>

Operating Expenses:

Other	<u>1,670</u>
-------	--------------

Net Income 63,674

Fund Balance at Beginning of Year 5,465

Fund Balance at End of Year \$69,139

See Accompanying Notes to the General Purpose Financial Statements

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
 NONEXPENDABLE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>REVISED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Interest	\$1,509	\$1,509	\$0
Contributions	<u>63,777</u>	<u>63,777</u>	<u>0</u>
Total Revenues	65,286	65,286	0
Expenses:			
Other	<u>250</u>	<u>250</u>	<u>0</u>
Excess of Revenues Over Expenses	65,036	65,036	0
Fund Equity at Beginning of Year	<u>5,465</u>	<u>5,465</u>	<u>0</u>
Fund Equity at End of Year	<u><u>\$70,501</u></u>	<u><u>\$70,501</u></u>	<u><u>\$0</u></u>

See Accompanying Notes to the General Purpose Financial Statements

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
 COMBINED STATEMENT OF CASH FLOWS
 NONEXPENDABLE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Other Operating Expenses	(\$250)
Contributions	63,777
Net Cash Provided by Operating Activities	63,527

Cash Flows from Investing Activities:

Interest	1,509
	1,509

Net Increase in Cash and Cash Equivalents	65,036
---	--------

Cash and Cash Equivalents Beginning of Year	5,465
	5,465

Cash and Cash Equivalents End of Year	\$70,501
---------------------------------------	----------

**Reconciliation of Operating Income to Net
 Cash Provided By Operating Activities:**

Operating Income	\$63,674
------------------	----------

Adjustments to Reconcile Operating Income to
 Net Cash Provided By Operating Activities:

Interest in Nonexpendable Trust Funds	(1,509)
---------------------------------------	---------

Changes in Assets and Liabilities:

Increase in Accrued Interest Receivable	(58)
---	------

Increase in Accounts Payable	1,420
Net Cash Provided By Operating Activities	\$63,527

Reconciliation of Cash and Cash Equivalents of Nonexpendable Trust Funds
 to Balance Sheet:

Cash and Cash Equivalents-All Fiduciary Funds	\$124,298
---	-----------

Cash and Cash Equivalents-Expendable Trust Funds	(22,765)
--	----------

Cash and Cash Equivalents-Agency Fund	(31,032)
Cash and Cash Equivalents-Nonexpendable Trust Funds	\$70,501

See Accompanying Notes to the General Purpose Financial Statements

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The West Alexandria School District was formed in the early 1800's. On December 30, 1963, the Preble County Board of Education consolidated all the schools located in Lanier, Harrison, and Twin Townships as Twin Valley School District. On June 1, 1983, the Preble County Board of Education split the Twin Valley School District resulting in the formation of the present Twin Valley Community Local School District.

Twin Valley Community Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State statute and federal guidelines. This Board of Education controls the School District's one instructional and administrative facility.

Reporting Entity:

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

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

The School District participates in three jointly governed organizations, two insurance purchasing pools and one shared risk pool. These organizations are the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Instructional Technology Association (SOITA), the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), the Ohio School Plan (OSP), and the Preble County Consortium (the Consortium), respectively. These organizations are presented in Notes 15, 16, and 17 to the general purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Twin Valley Community Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation - Fund Accounting

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

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

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

Governmental Fund Types:

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

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

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

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

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

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust funds, nonexpendable trust funds, and an agency fund. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. The School District's agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Account Groups:

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

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

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

B. Measurement Focus and Basis of Accounting

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

All nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The nonexpendable trust funds' operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

The modified accrual basis of accounting is followed for the governmental, expendable trust and agency funds. The full accrual basis of accounting is followed for the nonexpendable trust funds.

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

C. Budgetary Process

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

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All funds, other than the agency fund, are legally required to be budgeted and appropriated. A portion of the Title II special revenue fund grant activity that is administered by the fiscal agent was not budgeted by the School District. The legal level of budgetary control is at the function level within each fund. Any budgetary modifications at the legal level may only be made by resolution of the Board of Education.

Tax Budget:

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

Estimated Resources:

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

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, one supplemental appropriation resolution was legally enacted; however, the amendment was not significant.

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the current fiscal year, including all supplemental appropriations. Prior to year-end, the School District passed a resolution so that appropriations equaled expenditures in all fund types except special revenue and capital projects funds. Formal budgetary integration is employed by the Board of Education as a management control device during the year for all funds at the function level, other than the agency fund, consistent with statutory provisions.

Encumbrances:

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

Lapsing of Appropriations:

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

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 2002, the School District's investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$28,050, which includes \$20,440 assigned from other funds.

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

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed.

F. Inventory

Inventories are stated at cost, determined on a first-in, first-out basis, and consist of expendable supplies held for consumption. The costs of inventory items are recorded as expenditures in the governmental fund types when used.

G. Restricted Assets

Restricted assets represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets in the general fund represent amounts required by statute to be set aside by the School District for the purchase of textbooks and other instructional materials, and for capital improvements. See Note 18 for additional information regarding set-asides.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Assets acquired before December, 1995 are valued at estimated historical cost based on an appraisal performed in December of 1995 and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars or any asset the Treasurer and Superintendent decide to maintain control of as a fixed asset. The School District does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of the general fixed assets is also not capitalized. Assets in the general fixed assets account group are not depreciated.

I. Compensated Absences

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

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

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year end are considered not to have been paid with current available financial resources. General obligation bonds are reported as a liability of the general long-term obligations account group until due.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Fund Balance Reserves

The School District reserves those portions of fund equity that 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, property taxes, and endowments.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for endowments represents principal in the nonexpendable trust funds that cannot be spent.

M. Estimates

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

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Total Columns on General Purpose Financial Statements

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

NOTE 3 - ACCOUNTABILITY

At June 30, 2002, the general fund had a deficit fund balance of \$111,856, and the title VI-R special revenue fund had a deficit fund balance of \$177. The general fund regularly provides operating transfers to special revenue funds when cash is needed, rather than when accruals occur. The School District has passed an income tax levy which will help eliminate the general fund deficit. See Note 20.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. The School District did not budget for the activities of the balance of the FY 01 Title II special revenue fund administered by the fiscal agent who collects and holds the assets (budget basis). However, the activities of the fiscal agent that pertain to the School District are included in the special revenue fund for GAAP reporting purposes (GAAP basis).
5. Principal retirements on short-term loan obligations are reported on the operating statement (budget basis), but are eliminated on a GAAP basis.

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

6. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements

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

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

	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	\$128,234	\$41,829	(\$11,065)	(\$59,826)	\$831
Revenue Accruals	61,180	(35,323)	1,711	20,018	0
Expenditure Accruals	(64,487)	27,171	0	(140)	10,850
Prepays	(13,999)	0	0	0	0
Non-Budgeted Funds	0	3,140	0	0	0
Proceeds of Notes	35,000	0	0	0	0
Principal Retirement	(35,000)	0	0	0	0
Encumbrances	(70,736)	(25,842)	0	(15,071)	0
Unrecorded Cash - Prior Year	3,439	0	0	24	28
Unrecorded Cash - Current Year	(1,884)	(3,460)	0	(424)	(16)
Budget Basis	<u>\$41,747</u>	<u>\$7,515</u>	<u>(\$9,354)</u>	<u>(\$55,419)</u>	<u>\$11,693</u>

Net Income/Excess
of Revenues Over Expenses
Nonexpendable Trust Funds

GAAP Basis	\$63,674
Revenue Accruals	(58)
Expenditure Accruals	1,420
Budget	<u>\$65,036</u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

State Statute permits 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;
2. Bonds, notes debentures, or any other obligations or security 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); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$1,195,013 and the bank balance was \$1,341,117. Of the bank balance:

1. \$277,370 was covered by federal depository insurance; and
2. \$1,063,747 was uninsured and uncollateralized as defined by GASB Statement 3. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements by the bank, could potentially subject the School District to a successful claim by the FDIC.

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The District's only investment at fiscal year-end was STAR Ohio. This investment had a fair value of \$271,615. However, the investment in STAR Ohio was not classified by risk category because it was not evidenced by securities that exist in physical or book entry form.

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$1,466,628	\$0
STAR Ohio	(271,615)	271,615
GASB Statement No. 3	\$1,195,013	\$271,615

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 6 - PROPERTY TAXES

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

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

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

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

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

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$71,997,470	83.89%	\$72,889,950	85.64%
Public Utility	8,232,190	9.59	7,649,090	8.99
Tangible Personal Property	5,591,270	6.52	4,574,060	5.37
Total Assessed Value	<u>\$85,820,930</u>	<u>100.00%</u>	<u>\$85,113,100</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$45.08		\$44.93	

The School District receives property taxes from Preble County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 6 - PROPERTY TAXES (continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The total amount available as an advance at June 30, 2002, was \$61,022 and is recognized as revenue. \$51,314 was available to the general fund, \$1,078 was available to the classroom facilities maintenance special revenue fund, and \$8,630 was available to the bond retirement debt service fund.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002, consisted of property taxes, interest, accounts (tuition, rent, and student fees) and intergovernmental. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

Intergovernmental Receivables	Amounts
General Fund:	
Rentals	\$8,796
Special Instruction	22,185
Total General Fund	30,981
Special Revenue Funds:	
Athletic – Boys Basketball tournament and track meet	1,966
Fifth Quarter Pilot Grant	6,000
Total Special Revenue Funds	7,966
Total Intergovernmental Receivables	\$38,947

NOTE 8 - FIXED ASSETS

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

Asset Category	Balance at 06/30/01	Additions	Deletions	Balance at 06/30/02
Land and Improvements	\$768,778	\$0	\$0	\$768,778
Buildings and Improvements	15,638,019	0	0	15,638,019
Furniture, Fixtures and Equipment	3,424,351	56,316	0	3,480,667
Vehicles	630,075	0	0	630,075
Total General Fixed Assets	\$20,461,223	\$56,316	\$0	\$20,517,539

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 9 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Erie Insurance Group for fleet insurance, and Westfield Companies for school building and contents.

Coverage provided by Erie Insurance Group includes the following:

School Bus Fleet insurance:	
Per Accident	\$1,000,000
Per Individual	1,000,000

Coverage provided by Westfield Companies includes the following:

School building and contents (\$1,000 deductible)	21,107,132
--	------------

During fiscal year 2002, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to OSP. (See Note 16)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Per Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Fire Legal Liability	500,000
Medical Expense - Per Person/Accident	10,000
Employers Liability:	
Per Accident	1,000,000
Per Disease – Each Employee	1,000,000
Per disease – Policy Limit	1,000,000
Employee Benefits Liability:	
Per Claim	1,000,000
Aggregate Limit	2,000,000
Educators Legal Liability:	
Per Claim (\$2,500 deductible)	1,000,000
Annual Aggregate	2,000,000
Defense Annual Aggregate	1,000,000
Excess Liability:	
Limit of Liability	2,000,000
Annual Aggregate	2,000,000

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 9 - RISK MANAGEMENT (continued)

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

B. Workers' Compensation

For fiscal year 2002, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Intergrated Comp, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical Benefits

For fiscal year 2002, the School District participated in the Preble County Consortium (the Consortium), a shared risk pool consisting of five local school districts and an educational service center (See Note 17). The School District pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all the Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$59,045, \$33,348, and \$40,210, respectively; 50.85 percent was contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$29,199, representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations, the same rate as 2001. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were, \$325,767, \$333,486, and \$193,834, respectively; 83.44 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$53,957 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining member of the Board is with SERS.

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$154,311 for fiscal year 2002.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent for fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$108,759.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees and administrators earn twenty days of vacation per fiscal year. District office and supervisory staff earn ten to twenty days of vacation per fiscal year. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 185 days for classified employees and 195 days for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days for classified employees and 48 days for certified employees.

B. Insurance Benefits

Dental insurance is provided by the School District to most employees through Advanced Benefit. The School District provides life insurance and accidental death and dismemberment insurance to most employees through Community Mutual Life.

NOTE 13 – SHORT-TERM OBLIGATIONS

During fiscal year 2002, the School District signed a 4.78%, \$35,000 promissory note, in order to avoid a deficit cash balance in the general fund. The note was repaid during fiscal year 2002 from the general fund, the fund that received the proceeds.

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the School District during fiscal year 2002 were as follows:

	Amount Outstanding 6/30/01	Additions	Deductions	Amount Outstanding 6/30/02
School Improvement Bond				
1994 -- 6.30%	\$3,780,000	\$0	\$110,000	\$3,670,000
Intergovernmental	67,793	65,756	67,793	65,756
Compensated Absences	229,491	0	42,759	186,732
Total Long-Term Obligations	<u>\$4,077,284</u>	<u>\$65,756</u>	<u>\$220,552</u>	<u>\$3,922,488</u>

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

Twin Valley Community Schools School Improvement General Obligation Bonds - On July 1, 1994, Twin Valley Community Local School District issued \$4,285,000 in voted general obligation bonds for the purpose of the acquisition, construction, reconstruction and other improvements to the school building. The bonds were issued for a twenty-three year period with final maturity at June 1, 2017. The debt will be retired from the debt service fund.

Compensated absences will be paid from the funds from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$7,660,179 with an unvoted debt margin of \$85,113 at June 30, 2002. Principal and interest requirements to retire general obligation debt outstanding at June 30, 2002, are as follows:

Fiscal year Ending June 30	Principal	Interest	Total
2003	\$120,000	\$226,245	\$346,245
2004	135,000	219,420	354,420
2005	145,000	211,788	356,788
2006	155,000	203,460	358,460
2007	175,000	194,132	369,132
2008-2012	1,190,000	763,242	1,953,242
2013-2017	1,750,000	285,668	2,035,668
Total	<u>\$3,670,000</u>	<u>\$2,103,955</u>	<u>\$5,773,955</u>

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

Southwest Ohio Computer Association - The School District is a participant in the Southwest Ohio Computer Association (SWOCA) which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The School District paid SWOCA \$28,991 for services provided during the year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Council - The School District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges or other assessments as established by the SOEPC.

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (continued)

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2002, the School District paid \$6,433 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2002, the School District paid \$4,070 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

NOTE 16 - INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by an eleven member committee consisting of various GRP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 16 - INSURANCE PURCHASING POOL (continued)

Ohio School Plan – The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

NOTE 17 - SHARED RISK POOL

Preble County Consortium - The Preble County Consortium (the Consortium), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center. The Consortium is governed by an advisory committee consisting of each member's superintendent or designee from each participating school district. Premiums are paid on a monthly basis to the Consortium and their designated insurance company. The Consortium is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Consortium may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 101 E. Main Street, Eaton, Ohio 45320.

NOTE 18 - SET-ASIDE CALCULATIONS

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

Twin Valley Community Local School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 18 - SET-ASIDE CALCULATIONS

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

	Textbooks/ Instructional Materials	Capital Improvements
Set-aside Reserve Balance as of June 30, 2001	\$0	\$0
Current Year Set-aside Requirement	126,566	126,566
Current Year Offsets	(23,597)	(37,965)
Qualifying Disbursements	(119,147)	(90,615)
Set-aside Reserve Balance as of June 30, 2002	(\$16,178)	(\$2,014)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$16,178)	\$0

NOTE 19 - CONTINGENCIES

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

NOTE 20 – FISCAL CAUTION

On March 14, 2002, the Twin Valley Community Local School District was placed in fiscal caution by the Ohio Department of Education due to an estimated ending general fund balance of less than two percent of projected revenue at the end of fiscal year 2002. The failing of a one percent income tax levy in November of 2001 contributed to the District's fiscal caution status. The Ohio Department of Education has accepted the School District's financial recovery plan. The plan includes a .75 percent income tax levy, effective January 1, 2003, that was passed by the voters in May of 2002. The Ohio Department of Education released the District from fiscal caution, effective December 30, 2002.

NOTE 21 – STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550	\$0	\$32,351	\$0	\$26,216
National School Breakfast Program	05-PU-2002 05-PU-2001	10.553	11,821	-	11,821	-
			1,803	-	1,803	-
Total National School Breakfast Program			13,624	-	13,624	-
National School Lunch Program	LL-P4-2002 LL-P4-2001	10.555	73,581	-	73,581	-
			11,360	-	11,360	-
Total National School Lunch Program			84,941	-	84,941	-
Total U.S. Department of Agriculture - Nutrition Cluster			98,565	32,351	98,565	26,216
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)						
	C1-S1-2002	84.010	176,519	-	96,671	-
	C1-S1-2001		0	-	84,204	-
			176,519	-	180,875	-
Special Education Cluster:						
Special Education: Grants to States (IDEA Part B)	6B-SF-2002	84.027	77,083	-	77,083	-
Special Education: Preschool Grant	PG-S1-2002	84.173	1,519	-	1,385	-
Total Special Education Cluster			78,602	-	78,468	-
Safe and Drug Free Schools and Communities	DR-S1-2002	84.186	4,202	-	4,202	-
Goals 2000	G2-S2-2001 G2-S2-2000	84.276	0	-	13,000	-
			0	-	135	-
Total Goals 2000			0	-	13,135	-
Eisenhower Professional Development State Grant	MS-S1-2002	84.281	6,306	-	6,306	-
Innovative Education Program Strategy	C2-S1-2002	84.298	5,537	-	5,537	-
Class Size Reduction	CR-S1-2002	84.340	34,693	-	34,693	-
Total Department of Education			305,859	-	323,216	-
Totals			\$404,424	\$32,351	\$421,781	\$26,216

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

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

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

Twin Valley Community Local School District
Preble County
100 Education Drive
West Alexandria, Ohio 45381

To the Board of Education:

We have audited the financial statements of Twin Valley Community Local School District, Preble County, Ohio (the District), as of and for the year ended June 30, 2002, and have issued our report thereon dated January 28, 2003, wherein we noted the District was experiencing certain financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 28, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2002-10368-001 and 2002-10368-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the District in a separate letter dated January 28, 2003.

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

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

Betty Montgomery
Auditor of State

January 28, 2003



**Auditor of State
Betty Montgomery**

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

Twin Valley Community Local School District
Preble County
100 Education Drive
West Alexandria, Ohio 45381

To the Board of Education:

We have audited the compliance of Twin Valley Community Local School District, Preble 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 are applicable to its major federal program for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

January 28, 2003

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
PREBLE COUNTY
JUNE 30, 2002**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING 2002-10368-001

Reportable Condition - Student Activity Receipts

Inadequate or incomplete documentation was maintained for thirty-three percent of student activity receipts. These activities include school dances, school performances, newspaper sales, and other miscellaneous sales. In addition, one activity did not maintain a prenumbered receipt book or record student and sales and another activity had several posting errors. We performed alternate procedures to gain enough assurance for our opinion.

Lack of sufficient internal control procedures could result in misappropriation of goods or funds. Every activity advisor who is responsible for collecting funds should maintain a record of the items issued to, sold by, and returned by, each student.

When cash is received by advisors, the cash should be deposited daily with the Treasurer or his representative. When receipts are deposited with the Treasurer, a duplicate receipt should be issued to the advisor which should reflect the amount deposited daily and reconciles to the total of receipts issued by the advisor.

**FINDING 2002-10368-001
(Continued)**

We recommend the District document their internal control procedures that are performed throughout the year for all activities, including those activities where issuing individual receipts are not feasible. These procedures would include, but are not limited to:

- for school dances and performances, documenting the number of attendees, such as with the use of tickets and the cost of admission, and the use of ticket accountability sheets or sign in sheets;
- for newspaper sales, documenting the number of items printed, the number of items left after the sale, and the sale price.

For additional guidance, see *Guidelines for Developing Policies for Student Activity Programs*, available on the Auditor of State's website at www.auditor.state.oh.us, then click on Publications, Manuals and Handbooks.

FINDING 2002-10368-002

Reportable Condition – Fixed Assets

The District did not maintain an accurate record for its fixed assets. The following errors were noted:

- The District reported some fixed assets at replacement cost, not historical cost.
- The District had fixed asset deletions, but the Treasurer was unable to locate a list of deletions or documentation supporting deletions;
- The District did not provide the auditors with any deletion forms;
- The District did not complete an addition form for twelve out of twenty-four acquisitions;
- The District could not physically locate eight assets included on the fixed asset listing;
- The District did not include three assets on the fixed asset listing;
- The District purchased items that exceeded the capitalization amount of \$500, but were not included on the fixed asset listing;
- The District did not include some assets on the fixed asset listing because the items had not been placed in operation yet; and
- The District could not easily provide supporting documentation for additions.

Failure to record fixed assets at historical cost, properly update fixed asset records, maintain proper supporting documentation, and keep a record of fixed asset's location correct location may result in theft or loss. In addition, failure to record fixed assets at historical cost and properly update the fixed asset listing may result in the misstatement of fixed assets. To promote adequate safeguards over their fixed assets and to reduce the risk that the District's fixed assets will be misstated, the District should implement the following procedures:

FINDING 2002-10368-002
(Continued)

- **GASB 1400.111** states “Fixed assets should be recorded as cost-consideration given or received, whichever is more objectively determinable. The cost of the fixed asset not only includes its purchase price, but any ancillary charges necessary to place the asset in its intended location and condition for use.” We recommend the District record assets at historical cost rather than replacement cost.
- The District should utilize an addition and deletion form. The form should be completed when an asset is acquired or disposed and be approved by management. It should include a description of the asset, the tag number, the cost, the fund charged, the acquisition date, the location, reference to supporting documentation such as vouchers, invoices, and cancelled checks, the disposal date, and the method of disposal;
- The District should tag all fixed assets over the capitalization threshold and record them on the fixed asset listing when received; and
- The District should implement procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location.
- Any differences between the update and master listing should be investigated and either added or deleted as appropriate.
- Items acquired but not placed in operation should be recorded on the fixed asset list

3. FINDINGS FOR FEDERAL AWARDS

None.

This page intentionally left blank.

**TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10368-001	Lack of supporting documentation for student activity receipts	No	Not corrected, reissued as Finding 2002-10368-001



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT

PREBLE 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 13, 2003**