



**Auditor of State
Betty Montgomery**

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

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures, and Changes In Fund Balance – Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures, and Changes In Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	19
Statement of Fiduciary Net Assets – Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	21
Notes to the Basic Financial Statements	23
Schedule of Federal Awards Receipts and Expenditures	51
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	52
Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required By Government Auditing Standards	53
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	55
Schedule of Findings.....	57

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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Twin Valley Community Local School District, Preble County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Twin Valley Community Local School District, Preble County, Ohio, as of June 30, 2004, and the respective changes in financial position, where applicable, and the budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the result of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

April 12, 2005

Twin Valley Community Local School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004

The discussion and analysis of Twin Valley Community Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their *Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June, 1999.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$479,552, which represents a 4.9 percent decrease from 2003.
- General revenues accounted for \$7,294,436 in revenue or 84.3 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions, and interest, and capital grants, contributions, and interest accounted for \$1,361,164 or 15.7 percent of total revenues of \$8,655,600.
- The School District had \$9,135,152 in expenses; only \$1,361,164 of these expenses were offset by program specific charges for services, grants, contributions, or interest. General revenues (primarily taxes and entitlements) were \$7,294,436.
- Among major funds, the General Fund had \$7,218,295 in revenues and \$6,929,590 in expenditures. The General Fund's balance increased \$288,705 over 2003.

Using The Basic Financial Statements

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. The major funds for the Twin Valley Community Local School District are the General Fund and the Bond Retirement Debt Service Fund.

Twin Valley Community Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds.

Governmental Funds

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

Twin Valley Community Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

The School District as a Whole

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

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

Table 1
Net Assets

	2003	2004
Assets		
Current Assets	\$3,902,149	\$3,906,189
Capital Assets	12,729,499	12,066,268
Total Assets	16,631,648	15,972,457
Liabilities		
Current Liabilities	3,178,137	3,131,696
Long-Term Liabilities	3,739,358	3,606,160
	6,917,495	6,737,856
Net Assets		
Invested in Capital Assets, Net of Related Debt	9,179,499	8,651,268
Restricted	763,867	480,653
Unrestricted (Deficit)	(229,213)	102,680
Total Net Assets	\$9,714,153	\$9,234,601

Total assets of governmental activities decreased by \$659,191. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, increased by \$331,893. This increase was primarily due to a significant increase in income tax revenue.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the School District has prepared financial statements following *GASB Statement No. 34*, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior-year information is available, a comparative analysis of district-wide data will be presented.

Twin Valley Community Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 2
Change in Net Assets

	2004
Revenues	
Program Revenues:	
Charges for Services	\$551,154
Operating Grants, Contributions, and Interest	773,261
Capital Grants, Contributions, and Interest	36,749
Total Program Revenues	1,361,164
General Revenues:	
Property Taxes Levied for:	
General Purposes	2,121,088
Debt Service	313,399
Other Purposes	38,581
Income Taxes	667,397
Grants and Entitlements not Restricted to	
Specific Programs	4,131,847
Investment Earnings	20,499
Miscellaneous	1,625
Total General Revenues	7,294,436
Total Revenues	8,655,600
 Program Expenses	
Instruction:	
Regular	3,992,323
Special	918,645
Vocational	243,054
Support Services:	
Pupils	224,432
Instructional Staff	362,303
Board of Education	101,269
Administration	854,237
Fiscal	181,649
Operation and Maintenance of Plant	\$811,229
	(continued)

Twin Valley Community Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 2
Changes in Net Assets (continued)

	<u>2004</u>
Pupil Transportation	\$459,884
Central	56,732
Operation of Non-Instructional Services	401,474
Extracurricular Activities	309,109
Interest and Fiscal Charges	<u>218,812</u>
Total Expenses	<u>9,135,152</u>
Decrease in Net Assets	<u><u>(\$479,552)</u></u>

Governmental Activities

The unique nature of taxes in Ohio creates the need to routinely seek voter approval for the School District's operations. Property taxes and income taxes made up 36.3 percent of revenues for governmental activities for the Twin Valley Community Local School District for fiscal year 2004.

Instruction comprises 56.4 of School District expenses. Support services expenses make up 33.4 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Comparisons to 2003 have not been made because the data is not available.

Twin Valley Community Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 3
 Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction:		
Regular	\$3,992,323	\$3,667,656
Special	918,645	553,879
Vocational	243,054	196,946
Support Services:		
Pupils	224,432	205,034
Instructional Staff	362,303	286,108
Board of Education	101,269	101,269
Administration	854,237	854,237
Fiscal	181,649	181,649
Operation and Maintenance of Plant	811,229	809,884
Pupil Transportation	459,884	448,515
Central	56,732	49,847
Operation of Non-Instructional Services	401,474	(57,820)
Extracurricular Activities	309,109	257,972
Interest and Fiscal Charges	218,812	218,812
Total Expenses	\$9,135,152	\$7,773,988

The dependence upon tax revenues is apparent. Instruction activities are supported through taxes and other general revenues by 85.7 percent; for all activities general revenue support is 85.1 percent.

The School District's Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$8,609,446 and expenditures of \$8,602,388. The net change in fund balance for the General Fund was \$288,705, which was due to a significant increase in income tax revenue. A 0.75 percent income tax levy passed in November of 2002 and became effective January 1, 2003. Fiscal year 2004 was the first full year of the collection. The net change in fund balance for the Bond Retirement Debt Service Fund was (\$9,606), which was due to a decrease in property tax revenue from a decrease in the outside millage.

Twin Valley Community Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the School District amended its General Fund budget three times, which resulted in final appropriations decreasing \$103,713 to \$6,912,516 from original appropriations of \$7,016,229. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, the final budget basis revenue estimate was \$6,973,134, a \$309,734 increase from the original budget basis revenue of \$6,663,400. This difference was mainly in intergovernmental revenue, because of an increase in State aid of the per pupil amount.

Capital Assets

At the end of fiscal year 2004, the School District had \$12,066,268 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles.

Table 4 shows fiscal 2004 balances compared to 2003.

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

	<u>2003</u>	<u>2004</u>
Land	\$336,998	\$336,998
Land Improvements	140,038	133,793
Buildings and Improvements	11,724,159	11,240,639
Furniture, Fixtures, and Equipment	373,055	222,499
Vehicles	155,249	132,339
Totals	<u>\$12,729,499</u>	<u>\$12,066,268</u>

Overall capital assets decreased \$663,231 from fiscal year 2003 to fiscal year 2004. Increases in capital assets (furniture, fixtures, and equipment) were not enough to offset the depreciation expense for the year.

For more information on capital assets, see Note 10 of the Basic Financial Statements.

Twin Valley Community Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Debt Administration

At June 30, 2004 the School District had \$3,415,000 in general obligation bonds outstanding, of which \$145,000 is due within one year. Table 5 summarizes the bonds outstanding:

Table 5
Outstanding Debt, at Year End
Governmental Activities

	2003	2004
1994 General Obligation Bonds	\$3,550,000	\$3,415,000

On July 1, 1994 the 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 on June 1, 2017.

At June 30, 2004, the School District's overall legal debt limitation was \$5,197,538, with an unvoted debt margin of \$93,615 at June 30, 2004.

For more information on the School District's debt, see Note 15 of the Basic Financial Statements.

Current Financial Issues and Concerns

The recent developments of the Ohio General Assembly related to education finance are of great concern to the Board of Education and Administration of this School District. The legislature has effected a change in the State funding formula whereby declines in student enrollment are immediately translated into funding declines. In the past, a three year average of enrollment helped to mollify the effects of declining enrollment. This promises to have a tremendous impact on the School District because of low cost housing and widely changing levels of enrollment.

District personnel continue to make strides in the area of curriculum improvement and remediation. This strategy from the Continuous Improvement Plan is an attempt to increase student performance and enhance curriculum instruction. Both goals will promote student learning.

In comparison to other school districts in the State, the School District would be considered a school district suffering with low wealth. Therefore, the School District has not anticipated any meaningful growth in State revenue due to the lack of response to Supreme Court decisions. Organization and staffing continue to be evaluated in response to these reductions. Legislative activities continue to provide for consequences detrimental to the financial well being of the School District.

Twin Valley Community Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004*

The Twin Valley Community Local School District has committed itself to financial excellence for many years. The School District required the passage of a 0.75 percent income tax in November of 2002. In March, 2004, the Board conducted a special meeting to discuss the future financial needs of the School District and concerns regarding the need for additional funding in the very near future. In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact John Devilbiss, Treasurer, at Twin Valley Community Local School District, 100 Education Drive, West Alexandria, Ohio 45381, or email at jdevilbiss@tvs.k12.oh.us.

This page intentionally left blank.

Twin Valley Community Local School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$1,066,301
Accounts Receivable	23,896
Intergovernmental Receivable	28,142
Materials and Supplies Inventory	58,081
Prepaid Items	19,330
Property Taxes Receivable	2,343,625
Income Taxes Receivable	366,814
Nondepreciable Capital Assets	336,998
Depreciable Capital Assets, Net	11,729,270
Total Assets	<u>15,972,457</u>
Liabilities:	
Accounts Payable	22,489
Accrued Wages and Benefits Payable	577,228
Matured Compensated Absences Payable	36,503
Early Retirement Incentive Payable	6,000
Accrued Interest Payable	17,981
Intergovernmental Payable	238,232
Deferred Revenue	2,233,263
Long-Term Liabilities:	
Due Within One Year	168,852
Due in More Than One Year	3,437,308
Total Liabilities	<u>6,737,856</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	8,651,268
Restricted for:	
Debt Service	177,715
Capital Outlay	60,192
Other Purposes	242,746
Unrestricted	102,680
Total Net Assets	<u><u>\$9,234,601</u></u>

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Total Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$3,992,323	\$119,810	\$204,857	\$0	(\$3,667,656)
Special	918,645	15,000	349,766	0	(553,879)
Vocational	243,054	2,333	43,775	0	(196,946)
Support Services:					
Pupils	224,432	0	19,398	0	(205,034)
Instructional Staff	362,303	0	52,160	24,035	(286,108)
Board of Education	101,269	0	0	0	(101,269)
Administration	854,237	0	0	0	(854,237)
Fiscal	181,649	0	0	0	(181,649)
Operation and Maintenance of Plant	811,229	0	0	1,345	(809,884)
Pupil Transportation	459,884	0	0	11,369	(448,515)
Central	56,732	0	6,885	0	(49,847)
Operation of Non-Instructional Services					
	401,474	362,905	96,389	0	57,820
Extracurricular Activities	309,109	51,106	31	0	(257,972)
Interest and Fiscal Charges	218,812	0	0	0	(218,812)
Total Governmental Activities	\$9,135,152	\$551,154	\$773,261	\$36,749	(7,773,988)

General Revenues:

Property Taxes Levied for:

General Purposes	2,121,088
Debt Service	313,399
Other Purposes	38,581
Income Taxes	667,397
Grants and Entitlements not Restricted to Specific Programs	4,131,847
Investment Earnings	20,499
Miscellaneous	1,625
Total General Revenues	7,294,436

Change in Net Assets (479,552)

Net Assets Beginning of Year - Note 3 9,714,153

Net Assets End of Year \$9,234,601

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District

Balance Sheet

Governmental Funds

June 30, 2004

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$566,708	\$181,810	\$317,783	\$1,066,301
Receivables:				
Accounts	19,373	0	4,523	23,896
Intergovernmental	0	0	28,142	28,142
Property Taxes	2,002,103	304,793	36,729	2,343,625
Income Taxes	366,814	0	0	366,814
Materials and Supplies Inventory	38,243	0	19,838	58,081
Prepaid Items	19,330	0	0	19,330
Total Assets	<u>\$3,012,571</u>	<u>\$486,603</u>	<u>\$407,015</u>	<u>\$3,906,189</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$14,906	\$0	\$7,583	\$22,489
Accrued Wages and Benefits Payable	551,398	0	25,830	577,228
Intergovernmental Payable	159,000	0	8,095	167,095
Early Retirement Incentive Payable	6,000	0	0	6,000
Matured Compensated Absences Payable	36,503	0	0	36,503
Deferred Revenue	2,024,018	299,393	44,160	2,367,571
Total Liabilities	<u>2,791,825</u>	<u>299,393</u>	<u>85,668</u>	<u>3,176,886</u>
Fund Balances:				
Reserved for Encumbrances	75,312	0	26,675	101,987
Reserved for Property Taxes	33,679	5,400	669	39,748
Unreserved, Undesignated, Reported in:				
General Fund	111,755	0	0	111,755
Special Revenue Funds	0	0	238,589	238,589
Debt Service Fund	0	181,810	0	181,810
Capital Projects Funds	0	0	55,414	55,414
Total Fund Balances	<u>220,746</u>	<u>187,210</u>	<u>321,347</u>	<u>729,303</u>
Total Liabilities and Fund Balances	<u>\$3,012,571</u>	<u>\$486,603</u>	<u>\$407,015</u>	<u>\$3,906,189</u>

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004

Total Governmental Fund Balances	\$729,303
----------------------------------	-----------

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	336,998	
Land Improvements	229,826	
Buildings and Improvements	15,638,019	
Furniture, Fixtures, and Equipment	1,780,330	
Vehicles	606,879	
Accumulated Depreciation	<u>(6,525,784)</u>	
		12,066,268

Long-term assets are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Property Taxes	70,614	
Income Taxes	54,818	
Tuition and Fees	4,415	
Intergovernmental Grants	<u>4,461</u>	
		134,308

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

Compensated Absences	(191,160)	
Accrued Interest Payable	(17,981)	
General Obligation Bonds	<u>(3,415,000)</u>	
		(3,624,141)

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

Intergovernmental Payable		<u>(71,137)</u>
---------------------------	--	-----------------

Net Assets of Governmental Activities	<u><u>\$9,234,601</u></u>
---------------------------------------	---------------------------

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$2,116,189	\$313,355	\$38,514	\$2,468,058
Income Taxes	626,512	0	0	626,512
Tuition and Fees	72,335	0	37,921	110,256
Extracurricular Activities	0	0	145,485	145,485
Interest	20,499	0	2,083	22,582
Intergovernmental	4,355,816	39,172	546,095	4,941,083
Charges for Services	0	0	268,526	268,526
Rent	25,319	0	0	25,319
Miscellaneous	1,625	0	0	1,625
Total Revenues	7,218,295	352,527	1,038,624	8,609,446
Expenditures:				
Current:				
Instruction:				
Regular	3,078,473	0	102,778	3,181,251
Special	590,850	0	327,538	918,388
Vocational	234,245	0	2,442	236,687
Support Services:				
Pupils	202,001	0	22,948	224,949
Instructional Staff	287,384	0	75,019	362,403
Board of Education	101,269	0	0	101,269
Administration	853,413	7,713	949	862,075
Fiscal	179,149	0	0	179,149
Operation and Maintenance of Plant	737,895	0	69,408	807,303
Pupil Transportation	454,114	0	662	454,776
Central	49,284	0	6,885	56,169
Operation of Non-Instructional Services	0	0	373,594	373,594
Extracurricular Activities	158,416	0	143,408	301,824
Capital Outlay	3,097	0	185,034	188,131
Debt Service:				
Principal Retirement	0	135,000	0	135,000
Interest and Fiscal Charges	0	219,420	0	219,420
Total Expenditures	6,929,590	362,133	1,310,665	8,602,388
Net Change in Fund Balances	288,705	(9,606)	(272,041)	7,058
Fund Balances (Deficit) at Beginning of Year-Restated (Note 3)	(67,959)	196,816	593,388	722,245
Fund Balances at End of Year	\$220,746	\$187,210	\$321,347	\$729,303

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds \$7,058

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital Outlay	8,925	
Current Year Depreciation Expense	(672,156)	
Excess of Depreciation Expense over Capital Outlay	(663,231)	(663,231)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. These amounts consist of:

General Obligation Bond Payments		135,000
----------------------------------	--	---------

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds, when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

Decrease in Accrued Interest Payable		608
--------------------------------------	--	-----

Some revenues that will not be collected for several months after the School District's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds.

Property Taxes	5,010	
Income Taxes	40,885	
Tuition and Fees	1,568	
Intergovernmental Grants	(1,309)	46,154

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

Increase in Intergovernmental Payable	(3,339)	
Increase in Compensated Absences	(1,802)	
	(5,141)	(5,141)

Change in Net Assets of Governmental Activities (\$479,552)

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property Taxes	\$2,100,000	\$2,182,695	\$2,182,695	\$0
Income Taxes	400,000	387,884	387,884	0
Tuition and Fees	57,100	53,768	53,768	0
Interest	20,000	20,267	20,267	0
Intergovernmental	4,066,675	4,301,038	4,301,038	0
Rent	18,000	25,857	25,857	0
Miscellaneous	1,625	1,625	1,625	0
Total Revenues	6,663,400	6,973,134	6,973,134	0
Expenditures:				
Current:				
Instruction:				
Regular	3,015,632	3,021,319	3,021,319	0
Special	658,800	581,108	581,108	0
Vocational	221,266	208,055	208,055	0
Other	20,000	15,911	15,911	0
Support Services:				
Pupils	207,281	200,821	200,821	0
Instructional Staff	297,253	284,808	284,808	0
Board of Education	95,800	100,296	100,296	0
Administration	880,754	852,047	852,047	0
Fiscal	171,885	180,261	180,261	0
Operation and Maintenance of Plant	758,417	790,444	790,444	0
Pupil Transportation	463,195	468,561	468,561	0
Central	60,505	46,469	46,469	0
Extracurricular Activities	165,441	159,319	159,319	0
Capital Outlay	0	3,097	3,097	0
Total Expenditures	7,016,229	6,912,516	6,912,516	0
Excess of Revenues Over (Under) Expenditures	(352,829)	60,618	60,618	0
Other Financing Sources:				
Refund of Prior Year Expenditures	20,000	54,778	54,778	0
Net Change in Fund Balance	(332,829)	115,396	115,396	0
Fund Balance at Beginning of Year	295,610	295,610	295,610	0
Prior Year Encumbrances Appropriated	86,598	86,598	86,598	0
Fund Balance at End of Year	\$49,379	\$497,604	\$497,604	\$0

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$78,395	\$29,543
Accrued Interest Receivable	27	0
Total Assets	<u>78,422</u>	<u><u>\$29,543</u></u>
 Liabilities:		
Due to Students	<u>0</u>	<u><u>\$29,543</u></u>
 Net Assets:		
Held in Trust for Scholarships	<u><u>\$78,422</u></u>	

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	<u>Private Purpose Trust</u>
Additions:	
Interest	\$1,120
Contributions	2,650
Total Additions	<u>3,770</u>
Deductions:	
Payments in Accordance with Trust Agreements	<u>2,970</u>
Change in Net Assets	800
Net Assets Beginning of Year	<u>77,622</u>
Net Assets End of Year	<u><u>\$78,422</u></u>

See Accompanying Notes to the Basic Financial Statements

This page intentionally left blank.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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 does not have any component units.

The School District participates in three jointly governed organizations, two insurance purchasing pools and one shared risk pool. These organizations include 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 16, 17 and 18 to the basic financial statements.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis Of Presentation

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

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

Governmental Funds:

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

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

Bond Retirement Fund - The Bond Retirement Debt Service Fund accounts for property tax revenues and State exemption reimbursements collected for the payment of general obligation bonded debt.

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

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's trust funds are private purpose trusts which account for college scholarship programs for students. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The student managed activities agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

Twin Valley Community Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the Statement on Net Assets. The Statement of Activities accounts for increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

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

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions:

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, and entitlements. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the income is earned and revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants and entitlements 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 nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements from other school districts received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures:

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of costs, 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.

E. 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. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During fiscal year 2004, the School District's investments were limited to the State Treasury Assets Reserve of Ohio (STAROhio).

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

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$20,499, which includes \$11,863 assigned from other funds.

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 presented on the financial statements as cash and cash equivalents.

F. Inventory

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

G. Prepaid Items

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

H. Capital Assets and Depreciation

The School District's only capital assets are general capital assets. General capital assets usually result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of two thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	45 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	6-8 years

I. Accrued Liabilities and Long-Term Obligations

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

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

J. 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.

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

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Net Assets

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

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

L. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

M. Interfund Transactions

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

N. 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 Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Budgetary Process

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported in the final column in the budgetary statements reflect the amounts in the certificate that was in effect at the time final appropriations were passed by the Board.

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE

For fiscal year 2004, the School District has implemented *GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"*, *GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"*, *GASB Statement No. 38, "Certain Financial Statement Note Disclosures"*, *GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units"*, *GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences"*, and *GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."*

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE (continued)

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

GASB Statement No. 37 clarifies certain provisions of *GASB Statement No. 34*, including the required content of Management's Discussion and Analysis, the classification of program revenues, and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosures.

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

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

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

The School District increased the capitalization threshold for capital assets from \$500 to \$2,000.

The implementation of these statements and the threshold change had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE (continued)

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2003	(\$89,744)	\$196,816	\$593,388	\$700,460
GASB Interpretation No. 6	21,785	0	0	21,785
Adjusted Fund Balance (Deficit), June 30, 2003	<u>(\$67,959)</u>	<u>\$196,816</u>	<u>\$593,388</u>	722,245
GASB Statement No. 34 Adjustments:				
Capital Assets				12,729,499
Intergovernmental Payable				(67,798)
Long-Term Liabilities:				
General Obligation Bonds Payable				(3,550,000)
Compensated Absences				(189,358)
Accrued Interest Payable				(18,589)
Long-Term (Deferred) Assets:				
Property Tax Delinquents				65,604
Income Taxes				13,933
Accounts Receivable				2,847
Intergovernmental Receivable				<u>5,770</u>
Governmental Activities Net Assets, June 30, 2003				<u>\$9,714,153</u>

NOTE 4 – ACCOUNTABILITY

At June 30, 2004, the Title I and Title II-A Special Revenue Funds had deficit fund balances of \$7,903 and \$214, respectively. The deficits are the result of the application of the modified accrual basis of accounting under generally accepted accounting principles. The General Fund regularly provides operating transfers to special revenue funds when cash is needed, rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statement. These amounts are included as revenue on the GAAP basis operating statements.

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

Net Change in Fund Balance

GAAP Basis	\$288,705
Net Adjustment for Revenue Accruals	(189,962)
Net Adjustment for Expenditure Accruals	84,573
Unrecorded Cash – Fiscal Year 2003	1,184
Unrecorded Cash – Fiscal Year 2004	(1,605)
Adjustment for Encumbrances	(67,499)
Budget Basis	<u>\$115,396</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 6 - 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 the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$1,128,861 and the bank balance was \$1,185,707. \$282,171 of the bank balance was covered by Federal Depository Insurance and \$903,536 was considered uninsured and uncollateralized as defined by *GASB Statement No. 3*. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements 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 School District's only investment at fiscal year-end was STAROhio. This investment had a fair value of \$45,378. However, the investment in STAROhio was not classified by risk category because it was not evidenced by securities that exist in physical or book entry form.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

	Cash and Cash <u>Equivalents/Deposits</u>	<u>Investments</u>
<i>GASB Statement No. 9</i>	\$1,174,239	\$0
STAROhio	(45,378)	45,378
<i>GASB Statement No. 3</i>	<u>\$1,128,861</u>	<u>\$45,378</u>

NOTE 7 - PROPERTY TAXES

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

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

Public utility property tax revenue received in calendar year 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003, and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES (continued)

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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The amount available as an advance at June 30, 2004, was \$33,679 in the General Fund, \$5,400 in the Bond Retirement Debt Service Fund, and \$669 in the Nonmajor Funds. The amount available as an advance at June 30, 2003, was \$100,185 in the General Fund, \$16,451 in the Bond Retirement Debt Service Fund, and \$1,949 in the Nonmajor funds. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

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

	<u>2003 Second- Half Collections</u>		<u>2004 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential And Other Real Estate	\$79,458,030	86.10%	\$80,047,810	85.51%
Public Utility	7,671,380	8.31	7,582,040	8.10
Tangible Personal Property	5,157,320	5.59	5,984,912	6.39
Total Assessed Value	<u>\$92,286,730</u>	<u>100.00%</u>	<u>\$93,614,762</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.93		\$44.48	

The tax rate decrease was due to a decrease in the outside millage due to new construction.

NOTE 8 - INCOME TAX

The School District levies a voted tax of 0.75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2003, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 9 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes and income taxes, accounts (tuition and student fees), and intergovernmental. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Lunchroom	\$12,857
Summer Intervention Program	3,611
Title I	3,817
Title II-D Technology	7,857
Total Intergovernmental Receivables	<u>\$28,142</u>

NOTE 10 - CAPITAL ASSETS

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

	<u>Restated Balance 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/04</u>
Governmental Activities				
Capital Assets, not Being Depreciated:				
Land	\$336,998	\$0	\$0	\$336,998
Capital Assets, Being Depreciated:				
Land Improvements	229,826	0	0	229,826
Buildings and Improvements	15,638,019	0	0	15,638,019
Furniture, Fixtures, and Equipment	1,771,405	8,925	0	1,780,330
Vehicles	606,879	0	0	606,879
Total Capital Assets, Being Depreciated	<u>18,246,129</u>	<u>8,925</u>	<u>0</u>	<u>18,255,054</u>
Less Accumulated Depreciation:				
Land Improvements	(89,788)	(6,245)		(96,033)
Buildings and Improvements	(3,913,860)	(483,520)	0	(4,397,380)
Furniture, Fixtures, and Equipment	(1,398,350)	(159,481)	0	(1,557,831)
Vehicles	(451,630)	(22,910)	0	(474,540)
Total Accumulated Depreciation	<u>(5,853,628)</u>	<u>(672,156) *</u>	<u>0</u>	<u>(6,525,784)</u>
Capital Assets, Being Depreciated, Net	<u>12,392,501</u>	<u>(663,231)</u>	<u>0</u>	<u>11,729,270</u>
Governmental Activities Capital Assets, Net	<u>\$12,729,499</u>	<u>(\$663,231)</u>	<u>\$0</u>	<u>\$12,066,268</u>

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 10 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$603,836
Special	1,463
Vocational	5,691
Support Services:	
Instructional Staff	12,472
Administration	6,932
Operation and Maintenance of Plant	6,273
Pupil Transportation	450
Extracurricular Activities	7,252
Operation of Non-Instructional Services	27,787
Total Depreciation Expense	<u><u>\$672,156</u></u>

NOTE 11 - 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 2004, 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)	\$24,748,923
--	--------------

During fiscal year 2004, 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 School District pays this annual premium to OSP. (See Note 17).

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 11 - RISK MANAGEMENT (continued)

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	3,000,000
Educators Legal Liability:	
Per Claim (\$2,500 deductible)	1,000,000
Annual Aggregate	2,000,000
Excess Liability:	
Limit of Liability	2,000,000
Annual Aggregate	2,000,000

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

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). 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.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 11 - RISK MANAGEMENT (continued)

C. Employee Medical Benefits

For fiscal year 2004, the School District participated in the Preble County Consortium (the Consortium), a shared risk pool consisting of five local school districts and a School District (See Note 18). 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 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$92,110, \$90,202, and \$59,045, respectively; 51.25 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System of Ohio

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$445,735, \$443,876, and \$325,767, respectively; 83.71 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$3,497 made by the School District and \$3,529 made by the plan members.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2004, 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 has elected SERS.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

All STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$34,287 for fiscal year 2004.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$69,594.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 13 - POSTEMPLOYMENT BENEFITS (continued)

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

NOTE 14 - 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. Special Termination Benefit

The School District offers a special termination benefit to all certified employees who retire under the State Teachers Retirement System of Ohio. A Qualifying Teacher is a teacher who has attained or will attain, for the first time, at least 30 years of service credit or a teacher who is 65 years of age and otherwise eligible to retire under rules of the State Teachers' Retirement System of Ohio. To receive the benefit, the Qualified Teacher must meet the service credit requirement for the first time by June 30, 2003 through 2005. They must notify the Board by March 15th of the year they will retire and must retire no earlier than the end of that school year and no later than the end of the next school year. The benefit is \$6,000 payable in one lump sum, within 60 calendar days after the teacher is officially retired. A Qualified Teacher who misses the March 15 deadline forfeits the right to the incentive. The amount payable at June 30, 2004, was \$6,000.

C. 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 all employees through Community Mutual Life.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 15 - LONG-TERM OBLIGATIONS

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

	Restated Amount Outstanding 6/30/03	Additions	Deductions	Amount Outstanding 6/30/04	Amounts Due in One Year
Governmental Activities					
School Improvement General					
Obligation Bonds 1994 - 6.30%	\$3,550,000	\$0	\$135,000	\$3,415,000	\$145,000
Compensated Absences	189,358	89,935	88,133	191,160	23,852
Total Long-Term Liabilities	<u>\$3,739,358</u>	<u>\$89,935</u>	<u>\$223,133</u>	<u>\$3,606,160</u>	<u>\$168,852</u>

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 on June 1, 2017. The debt will be retired from the Bond Retirement Debt Service Fund.

Compensated absences will be paid from the General Fund and the Food Service Special Revenue Fund.

The School District's overall legal debt margin was \$5,197,538 with an unvoted debt margin of \$93,615 at June 30, 2004.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$145,000	\$211,788	\$356,788
2006	155,000	203,460	358,460
2007	175,000	194,132	369,132
2008	190,000	183,635	373,635
2009	215,000	170,546	385,546
2010-2014	1,405,000	586,796	1,991,796
2015-2017	1,130,000	107,933	1,237,933
<u>Total</u>	<u>\$3,415,000</u>	<u>\$1,658,290</u>	<u>\$5,073,290</u>

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. 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 \$29,223 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

B. Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative 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. 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 forfeits 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 2004, the School District paid \$6,277 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

C. Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. 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, 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.

Twin Valley Community Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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 2004, the School District paid \$1,551 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

NOTE 17 - INSURANCE PURCHASING POOLS

A. 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 Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County School District and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

B. Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) 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-Schuett Insurance Agency, Inc. and a partner of the Hylant Group, Inc.

Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Schuett Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Twin Valley Community Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 18 - 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 for the purpose of achieving lower rates for medical insurance. 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 School District serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

NOTE 19 - 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.

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 Acquisition
Set-aside Reserve Balance June 30, 2003	\$4,554	\$0
Current Year Set-aside Requirement	141,320	141,320
Qualifying Disbursements	(184,893)	(129,202)
Current Year Offsets	0	(39,794)
Totals	(\$39,019)	(\$27,676)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$39,019)	\$0
Set-aside Reserve Balance June 30, 2004	\$0	\$0

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 19 - SET-ASIDE CALCULATIONS (continued)

The School District had qualifying disbursements and offsets during the fiscal year that reduced the textbooks and instructional materials and capital acquisitions amounts below zero. The extra amount of offsets for textbooks and instructional materials may be used to reduce the set-aside requirements in future fiscal years. The extra amount for capital acquisitions may not be used to reduce the set-aside requirement of future fiscal years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

NOTE 20 - CONTINGENCIES

A. Grants

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 requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

B. Litigation

There are currently no matters in litigation with the School District as defendant.

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, 2004**

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		\$ 20,486		\$ 20,486
National School Breakfast Program	05PU-2004	10.553	\$ 9,702	-	\$ 9,702	-
	05PU-2003		3,355	-	3,355	-
Total National School Breakfast Program			13,057	-	13,057	-
National School Lunch Program	LLP4-2004	10.555	67,336	-	67,336	-
	LLP4-2003		25,148	-	25,148	-
Total National School Lunch Program			92,484	-	92,484	-
Total Nutrition Cluster			105,541	20,486	105,541	20,486
<i>Total Passed Through Ohio Department of Education</i>			105,541	20,486	105,541	20,486
Total U.S. Department of Agriculture			105,541	20,486	105,541	20,486
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)						
	C1S1-2004	84.010	153,985	-	140,781	-
	C1S1-2003		52,841	-	71,343	-
Total Grants to Local Educational Agencies (ESEA Title I)			206,826	-	212,124	-
Special Education Cluster:						
Special Education: Grants to States (IDEA Part B)	6BSF-2004-P	84.027	127,779	-	127,779	-
	6BSF-2003-P		5,396	-	5,396	-
Total Special Education: Grants to States (IDEA Part B)			133,175	-	133,175	-
Special Education: Preschool Grant	PGS1-2004-P	84.173	1,466	-	1,466	-
Total Special Education Cluster			134,641	-	134,641	-
Safe and Drug Free Schools and Communities	DRS1-2004	84.186	5,914	-	6,488	-
Innovative Education Program Strategy	C2S1-2004	84.298	5,670	-	6,254	-
Title II-D: Technology Literacy Challenge Fund	TJS1-2004	84.318	5,022	-	0	-
	TJS1-2003		(803)	-	0	-
Total Title II-D: Technology Literacy Challenge Fund			4,219	-	0	-
Title II-A: Improving Teacher Quality	TRS1-2004	84.367	53,328	-	53,328	-
	TRS1-2003		28,135	-	28,135	-
Total Title II-A: Improving Teacher Quality			81,463	-	81,463	-
<i>Total Passed Through Ohio Department of Education</i>			438,733	-	440,970	-
Total U.S. Department of Education			438,733	-	440,970	-
Total			\$ 544,274	\$ 20,486	\$ 546,511	\$ 20,486

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
JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the School District's federal awards programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C – MATCHING REQUIREMENTS

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

NOTE D – NEGATIVE RECEIPTS

Each project completed approved activities within the time frames allotted by the Ohio Department of Education (ODE). At the conclusion of the grant period, all unexpended funds were returned to ODE for refund to the United States Department of Education (USDOE) and all undrawn funds were forfeited to USDOE as unused.



**Auditor of State
Betty Montgomery**

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

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 the governmental activities, each major fund and the aggregate remaining fund information of Twin Valley Community Local School District, Preble County, Ohio (the School District) as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 12, 2005, in which we noted the School District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the School District's management dated April 12, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated April 12, 2005 we reported other matters related to noncompliance we deemed immaterial.

Twin Valley Community Local School District
Preble County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

April 12, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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:

Compliance

We have audited the compliance of Twin Valley Community Local School District, Preble County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal program for the fiscal year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected 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.

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

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

Betty Montgomery
Auditor of State

April 12, 2005

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**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
MAY 5, 2005**