

Paint Valley Local School District

Ross County, Ohio

Single Audit

July 1, 2003 Through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004



BALESTRA, HARR & SCHERER
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**Auditor of State
Betty Montgomery**

Board of Education
Paint Valley Local School District
7454 US Route 50
Bainbridge, Ohio 45612

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

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

May 20, 2005

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**Paint Valley Local School District
Ross County, Ohio**

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INDEPENDENT AUDITOR-S REPORT

Members of the Board
Paint Valley Local School District
7454 US Route 50
Bainbridge, Ohio 45612

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Paint Valley Local School District (the School District), Ross County, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

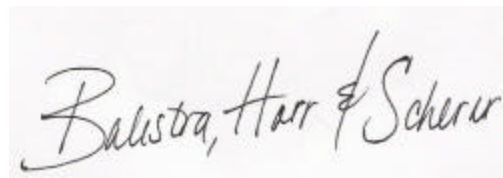
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2004, and the respective changes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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2005, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 3 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government's", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

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

Balestra, Harr & Scherer CPAs, Inc.
April 14, 2005

Paint Valley Local School District
Ross County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Paint Valley Local School District (the "School District") discussion and analysis of the annual financial report provides a review of the financial performance 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. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not available. Subsequent reports will include the comparative information.

FINANCIAL HIGHLIGHTS

- The School District's assets exceeded its liabilities at June 30, 2004 by \$22,435,766.
- The School District's net assets of governmental activities decreased \$335,630.
- General revenues accounted for \$7,629,352 in revenue or 74 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions and capital grants and contributions accounted for \$2,650,122 or 26 percent of total revenues of \$10,279,474.
- The School District had \$10,615,104 in expenses related to governmental activities; \$2,650,122 of these expenses was offset by program specific charges for services and sales, operating grants and contributions and capital grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the Paint Valley Local School District's financial situation as a whole and also give a detailed view of the School District's financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Major 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 the amount of funds available for future spending. The fund financial statements also look at the School District's most significant funds with all other Non-Major funds presented in total in one column.

Paint Valley Local School District
Ross County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

REPORTING THE SCHOOL DISTRICT AS A WHOLE

The analysis of the School District as a whole begins with the Statement of Net Assets and the Statement of Activities. These reports provide information that will help the reader to determine whether the School District is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes to those assets. This change informs the reader whether the School District's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the School District's financial well-being. Some of these factors include the condition of capital assets, and required educational support services to be provided.

In the Statement of Net Assets and the Statement of Activities, the School District has only one kind of activity.

- Governmental Activities. All of the School District's programs and services are reported here including instruction and support services.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the School District's funds begins on page 7. Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the School District is meeting legal responsibilities for use of grants. The School District's major funds are the General Fund, the Permanent Improvement Fund, and the Classroom Facilities Fund.

Governmental Funds. All of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily 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 to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational support services. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Paint Valley Local School District
 Ross County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004

THE SCHOOL DISTRICT AS A WHOLE

As stated previously, 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

	2004	2003 *
Assets:		
Current Assets	\$5,604,632	\$5,201,982
Restricted Cash	538,667	391,075
Capital Assets, Net	21,141,688	21,993,329
Total Assets	27,284,987	27,586,386
Liabilities:		
Current and Other Liabilities	2,624,635	2,466,386
Long-Term Liabilities	2,224,586	2,348,604
Total Liabilities	4,849,221	4,814,990
Net Assets:		
Invested in Capital Assets, Net of Related Debt	19,262,455	19,960,142
Restricted	2,565,110	2,035,402
Unrestricted	608,201	775,852
Total Net Assets	\$22,435,766	\$22,771,396

Total net assets of the Center as a whole decreased \$335,630. Restricted Cash increased due to an increase in the set aside reserve for both the budget stabilization and textbook reserve.

* As Restated, See Note 3

Paint Valley Local School District
 Ross County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004

Table 2 shows the changes in net assets for the fiscal year ended June 30, 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.

Table 2
 Change in Net Assets

	2004
Revenues	
Program Revenues:	
Charges for Services	\$681,258
Operating Grants & Contributions	1,931,169
Capital Grants & Contributions	37,695
Total Program Revenues	2,650,122
General Revenues:	
Taxes Levied for:	
General Purposes	1,221,434
Debt Service	144,815
Building Maintenance	27,071
Permanent Improvement	98,049
Grants and Entitlements, Not Restricted to Specific Programs	6,045,848
Gifts and Donations	3,600
Investment Earnings	48,390
Miscellaneous	39,929
Rent	216
Total General Revenues	7,629,352
Total Revenues	10,279,474
Program Expenses	
Instruction	
Regular	\$4,631,548
Special	1,507,379
Vocational	2,307
Other	445,449
Support Services	
Pupils	284,588
Instructional Staff	208,313
Board of Education	142,906
Administration	618,650
Fiscal	318,946
Operation of Maintenance and Plant	1,037,473
Pupil Transportation	639,309
Central	6,008
Operation of Non-Instructional Services	364,957
Extracurricular Activities	302,388
Interest and Fiscal Charges	104,883
Total Expenses	10,615,104
Net Assets at Beginning of Year (As Restated- See Note 3)	22,771,396
Decrease in Net Assets	(335,630)
Net Assets at End of Year	\$22,435,766

Paint Valley Local School District
 Ross County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004

Governmental Activities

Charges for services and sales comprised 7 percent of revenue for governmental activities, while operating grants and contributions comprised 19 percent of revenue for governmental activities, and capital grants and contributions comprised 0.4 percent of revenue for governmental activities of the School District for fiscal year 2004.

As indicated by governmental program expenses, instruction is emphasized. Regular Instruction comprised 44 percent of governmental program expenses with Special Instruction comprising 14 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements and other general revenues. Comparisons to 2003 have not been made since they are not available.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	2004	
	Total Cost of Services	Net Cost of Services
Instruction	\$6,586,683	\$4,991,031
Support Services	3,256,193	2,642,149
Operation of Non-Instructional Services	364,957	64,961
Extracurricular Activities	302,388	181,412
Interest and Fiscal Charges	104,883	85,429
Total Expenses	\$10,615,104	\$7,964,982

THE SCHOOL DISTRICT'S FUNDS

Major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$10,351,585 and expenditures and other financing uses of \$10,047,340. The net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund increased by \$273,800. This increase was primarily due to the School District having higher tuition and fees revenue than in the prior year.

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 2004, there were several revisions to the General Fund budget. In part, these revisions increased appropriations by \$2,056,899. The Treasurer has been given the authority by the Board of Education to make line item adjustments within the budget. The General fund's ending unobligated cash balance was \$1,951,391 above the final budgeted amount.

Paint Valley Local School District
 Ross County, Ohio
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the School District had \$21,141,688 invested in its capital assets. Table 4 shows the fiscal year 2004 balances compared to 2003.

Table 4
 Capital Assets
 (Net of Accumulated Depreciation)

Governmental Activities

	2004	2003
Land	\$35,188	\$35,188
Land Improvements	907,311	953,292
Buildings and Building Improvements	18,786,006	19,466,291
Furniture and Equipment	1,079,997	1,171,622
Vehicles	322,870	347,642
Infrastructure	5,952	6,201
Textbooks	4,364	13,093
Totals	\$21,141,688	\$21,993,329

Changes in capital assets from the prior year resulted from the addition of building improvements, vehicles, furniture and equipment, and depreciation expense. See Note 9 to the basic financial statements for more detailed information related to capital assets.

Debt

At June 30, 2004, the School District had one outstanding capital lease and one outstanding bond. The capital lease was for fitness equipment, furniture and fixtures and the bond was to help finance the construction of an education complex. The outstanding amount totaled \$1,879,233. See Note 15 to the basic financial statements for more detailed information regarding debt.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the School District's financial condition and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bob Ward, Treasurer, Paint Valley Local School District, 7454 State Route 50, Bainbridge, Ohio 45612.

Paint Valley Local School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 3,795,092
Cash and Cash Equivalents with Fiscal Agents	53,822
Intergovernmental Receivable	137,270
Taxes Receivable	1,618,448
Noncurrent Assets:	
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	538,667
Non-Depreciable Capital Assets	35,188
Depreciable Capital Assets, net	<u>21,106,500</u>
<i>Total Assets</i>	<u><u>27,284,987</u></u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	38,879
Accrued Wages and Benefits	751,379
Intergovernmental Payable	302,901
Deferred Revenue	1,423,846
Claims Payable	107,630
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	170,393
Due in More Than One Year	<u>2,054,193</u>
<i>Total Liabilities</i>	<u><u>4,849,221</u></u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	19,262,455
Restricted for Debt Service	169,712
Restricted for Capital Outlay	1,626,991
Restricted for Other Purposes	226,535
Restricted - Nonexpendable	3,205
Restricted for Set-Asides	538,677
Unrestricted	<u>608,201</u>
<i>Total Net Assets</i>	<u><u>\$ 22,435,776</u></u>

The notes to the financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net(Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 4,631,548	\$ 253,407	\$ 329,211	\$ 17,033	\$ (4,031,897)
Special	1,507,379	155,661	818,694	0	(533,024)
Vocational	2,307	96	0	0	(2,211)
Other	445,449	21,246	304	0	(423,899)
Support Services:					
Pupils	284,588	19,974	34,216	0	(230,398)
Instructional Staff	208,313	10,563	5,682	0	(192,068)
Board of Education	142,906	6,798	0	0	(136,108)
Administration	618,650	30,768	10,612	0	(577,270)
Fiscal	318,946	12,786	3,247	20,662	(282,251)
Operation and Maintenance of Plant	1,037,473	46,490	9,300	0	(981,683)
Pupil Transportation	639,309	29,298	368,256	0	(241,755)
Central	6,008	1,094	4,298	0	(616)
Operation of Non-Instructional Services	364,957	61,635	238,361	0	(64,961)
Extracurricular Activities	302,388	30,558	90,418	0	(181,412)
Interest and Fiscal Charges	104,883	884	18,570	0	(85,429)
<i>Total Governmental Activities</i>	<u>10,615,104</u>	<u>681,258</u>	<u>1,931,169</u>	<u>37,695</u>	<u>(7,964,982)</u>
General Revenues:					
Taxes Levied For:					
General Purposes					1,221,434
Debt Service					144,815
Building Maintenance					27,071
Permanent Improvement					98,049
Grants and Entitlements not Restricted to Specific Programs					6,045,848
Gifts and Donations					3,600
Investment Earnings					48,390
Miscellaneous					39,929
Rent					216
<i>Total General Revenues</i>					<u>7,629,352</u>
<i>Change in Net Assets</i>					(335,630)
<i>Net Assets Beginning of Year (As Restated - See Note 3)</i>					<u>22,771,396</u>
<i>Net Assets End of Year</i>					<u>\$ 22,435,766</u>

The notes to the financial statements are an integral part of this statement.

Paint Valley Local School District
Balance Sheet
Governmental Funds
June 30, 2004

	<u>General</u>	<u>Permanent Improvement</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:					
Equity in Pooled Cash and Cash Equivalents	\$ 1,503,095	\$ 708,456	\$ 879,908	\$ 485,139	\$ 3,576,598
Interfund Receivable	1,429	-	-	-	1,429
Intergovernmental Receivable	-	-	-	43,816	43,816
Taxes Receivable	1,325,131	106,574	-	186,743	1,618,448
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	<u>538,667</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>538,667</u>
<i>Total Assets</i>	<u>\$ 3,368,322</u>	<u>\$ 815,030</u>	<u>\$ 879,908</u>	<u>\$ 715,698</u>	<u>\$ 5,778,958</u>
LIABILITIES:					
Accounts Payable	33,884	-	-	4,995	38,879
Accrued Wages and Benefits	660,316	-	-	91,063	751,379
Interfund Payable	-	-	-	1,429	1,429
Intergovernmental Payable	111,329	-	-	13,412	124,741
Deferred Revenue	<u>1,190,590</u>	<u>95,848</u>	<u>-</u>	<u>166,938</u>	<u>1,453,376</u>
<i>Total Liabilities</i>	<u>1,996,119</u>	<u>95,848</u>	<u>-</u>	<u>277,837</u>	<u>2,369,804</u>
Equity:					
FUND BALANCES:					
Reserved:					
Reserved for Encumbrances	305,898	16,197	-	49,519	371,614
Reserved for Contributions	-	-	-	3,066	3,066
Reserved for Property Taxes	134,541	10,726	-	19,805	165,072
Reserved for Textbooks and Instructional Materials	496,638	-	-	-	496,638
Reserved for Capital Improvements	7,179	-	-	-	7,179
Reserved for Budget Stabilization	34,850	-	-	-	34,850
Unreserved, Designated:					
Designated for Budget Reserve	185,522	-	-	-	185,522
Unreserved, Undesignated, Reported in:					
General Fund	207,575	-	-	-	207,575
Special Revenue Funds	-	-	-	205,949	205,949
Debt Service Funds	-	-	-	136,221	136,221
Capital Projects Funds	-	692,259	879,908	23,162	1,595,329
Permanent Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>139</u>	<u>139</u>
<i>Total Fund Balances</i>	<u>1,372,203</u>	<u>719,182</u>	<u>879,908</u>	<u>437,861</u>	<u>3,409,154</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,368,322</u>	<u>\$ 815,030</u>	<u>\$ 879,908</u>	<u>\$ 715,698</u>	<u>\$ 5,778,958</u>

The notes to the financial statements are an integral part of this statement.

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

Total Governmental Fund Balances		\$ 3,409,154
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		21,141,688
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Intergovernmental		29,530
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds		(178,160)
An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets		258,140
Long-Term Liabilities, including bonds, capital lease obligations, and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(345,353)	
Capital Lease Obligations	(244,233)	
General Obligation Bonds	(1,635,000)	
<u>Total</u>		<u>(2,224,586)</u>
Net Assets of Governmental Activities		<u><u>\$ 22,435,766</u></u>

The notes to the financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Revenues, Expenditures and Changes in Fund Balance.
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Permanent Improvement	Classroom Facilities	All Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property Taxes	\$ 1,219,115	\$ 97,863	\$ -	\$ 170,619	\$ 1,487,597
Intergovernmental	6,798,691	12,670	-	1,224,234	8,035,595
Interest	38,438	-	9,774	178	48,390
Tuition and Fees	386,168	-	-	-	386,168
Rent	216	-	-	-	216
Extracurricular Activities	-	-	-	169,783	169,783
Gifts and Donations	-	-	-	3,600	3,600
Customer Sales and Services	-	-	-	125,307	125,307
Miscellaneous	26,306	-	308	13,315	39,929
<i>Total Revenues</i>	<u>8,468,934</u>	<u>110,533</u>	<u>10,082</u>	<u>1,707,036</u>	<u>10,296,585</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	3,572,927	-	1,375	506,340	4,080,642
Special	934,281	-	-	590,788	1,525,069
Vocational	2,023	-	-	-	2,023
Other	445,024	-	-	425	445,449
Support Services:					
Pupils	232,640	-	-	47,830	280,470
Instructional Staff	184,074	-	-	7,943	192,017
Board of Education	136,246	-	-	-	136,246
Administration	598,424	-	-	12,825	611,249
Fiscal	251,884	56,509	-	6,984	315,377
Operation and Maintenance of Plant	907,662	-	-	13,000	920,662
Pupil Transportation	590,242	-	-	2,240	592,482
Central	-	-	-	6,008	6,008
Operation of Non-Instructional Services	24,409	-	-	327,247	351,656
Extracurricular Activities	147,760	-	-	126,393	274,153
Debt Service:					
Principal	93,954	-	-	60,000	153,954
Interest	18,584	-	-	86,299	104,883
<i>Total Expenditures</i>	<u>8,140,134</u>	<u>56,509</u>	<u>1,375</u>	<u>1,794,322</u>	<u>9,992,340</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>328,800</u>	<u>54,024</u>	<u>8,707</u>	<u>(87,286)</u>	<u>304,245</u>
OTHER FINANCING SOURCES AND USES:					
Transfers In	-	-	-	55,000	55,000
Transfers Out	(55,000)	-	-	-	(55,000)
<i>Total Other Financing Sources and Uses</i>	<u>(55,000)</u>	<u>-</u>	<u>-</u>	<u>55,000</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	273,800	54,024	8,707	(32,286)	304,245
<i>Fund Balance at Beginning of Year (As Restated - See Note 3)</i>	1,098,403	665,158	871,201	470,147	3,104,909
<i>Fund Balance at End of Year</i>	<u>\$ 1,372,203</u>	<u>\$ 719,182</u>	<u>\$ 879,908</u>	<u>\$ 437,861</u>	<u>\$ 3,409,154</u>

The notes to the financial statements are an integral part of this statement.

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

Net Change in Fund Balances - Total Governmental Funds \$ 304,245

**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. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Asset Additions	75,316	
Current Year Depreciation	(926,957)	
Total		(851,641)

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

Taxes	3,772	
Intergovernmental	(20,883)	
Total		(17,111)

Repayment of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

60,000

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

93,954

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

176,936

Some expenses 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.

Increase in Compensated Absences	(29,936)	
Increase in Intergovernmental Payable	(72,077)	
Total		(102,013)

Net Change in Net Assets of Governmental Activities \$ (335,630)

The notes to the financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Budget Basis)
GENERAL FUND
For the Fiscal Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Total Revenues and Other Financing Sources	\$ 8,436,625	\$ 8,659,101	\$ 8,659,101	\$ -
Total Expenditures and Other Financing Uses	8,274,525	10,331,424	8,380,033	1,951,391
Net Change in Fund Balance	162,100	(1,672,323)	279,068	1,951,391
Fund Balance at Beginning of Year	1,252,649	1,252,649	1,252,649	-
Prior Year Encumbrances Appropriated	419,659	419,659	419,659	-
Fund Balance (Deficit) at End of Year	\$ 1,834,408	\$ (15)	\$ 1,951,376	\$ 1,951,391

The notes to the financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Fund Net Assets
Governmental Activities- Internal Service Fund
June 30, 2004

	Internal Service
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 218,494
Cash and Cash Equivalents with Fiscal Agents	53,822
Intergovernmental Receivable	93,454
<i>Total Assets</i>	365,770
LIABILITIES:	
Current Liabilities:	
Claims Payable	107,630
<i>Total Liabilities</i>	107,630
NET ASSETS:	
Unrestricted	258,140
<i>Total Net Assets</i>	\$ 258,140

The notes to the financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Governmental Activities- Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Internal Service
OPERATING REVENUES:	
Charges for Services	\$ 1,091,204
<i>Total Operating Revenues</i>	1,091,204
OPERATING EXPENSES:	
Purchased Services	168,629
Claims	745,639
<i>Total Operating Expenses</i>	914,268
<i>Changes in Net Assets</i>	176,936
<i>Net Assets at Beginning of Year (As Restated - See Note 3)</i>	81,204
<i>Net Assets at End of Year</i>	\$ 258,140

The notes to the financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Cashflows
Governmental Activities- Internal Service Fund
For the Fiscal Year Ended June 30, 2004

	Internal Service Fund
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
<i>Cash Flows from Operating Activities:</i>	
Cash Received from Customers	\$997,750
Cash Payments for Claims	(729,482)
Cash Payments for Purchased Services	(168,629)
<i>Net Cash Provided by Operating Activities</i>	99,639
Cash and Cash Equivalents at Beginning of Year (Restated- See Note 3)	172,677
Cash and Cash Equivalents at End of Year	\$272,316
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i>	
Operating Income	\$176,936
<i>Changes in Assets and Liabilities:</i>	
Increase in Intergovernmental Receivable	(93,454)
Increase in Claims Payable	16,157
<i>Net Cash Provided by Operating Activities</i>	\$99,639

The notes to the financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2004

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 29,951
<i>Total Assets</i>	<u>29,951</u>
LIABILITIES:	
Undistributed Monies	<u>29,951</u>
<i>Total Liabilities</i>	<u>\$ 29,951</u>

The notes to the financial statements are an integral part of this statement.

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1956 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 121 square miles. It is located in Ross County, and includes all of the Villages of Bainbridge and Bourneville and portions of Paxton, Paint and Twin Townships. It is staffed by 69 non-certificated employees, 85 certificated full-time teaching personnel and 4 administrative employees who provide services to 1,182 students and other community members. The School District currently operates 3 instructional buildings and 1 bus garage.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure 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 Paint Valley Local School District, this includes general operations, food service and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organizations 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 organizations resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

- ▶ Parent Teacher Organization
- ▶ Athletic Boosters & Band Boosters
- ▶ Ross-Pike Educational Service District

The School District is associated with three jointly governed organizations: South Central Ohio Computer Association, Pickaway-Ross County Career and Technical Center, and Great Seal Education Network of Tomorrow. The School District is also associated with a claim servicing pool and an insurance purchasing pool: the Ross County School Employees Insurance Consortium and the Ohio School Boards Association Workers Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation - Fund Accounting

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 the fiduciary funds.

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 therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. 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. Fiduciary funds are reported by type.

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by the School District can be classified using three categories: governmental, proprietary 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 balance 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 is 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.

Classroom Facilities Fund – The Classroom facilities fund is a fund provided to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Permanent Improvement Fund – The Permanent Improvement Fund is a fund provided to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements.

Proprietary Fund Type:

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

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation - Fund Accounting (continued)

Fiduciary Fund Type:

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

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenditures) 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 are generally 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.

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. Government-wide financial statements and fund financial statements of the proprietary and fiduciary funds 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting (continued)

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 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. Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types and the fiduciary fund. Revenues are recognized in the accounting period which they are earned, and expenses are recognized at the time they are incurred.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Process

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The Self-Insurance Internal Service Fund has only the dental insurance portion of the fund budgeted and shown as part of the School District's cash activity; the medical insurance activity is handled by a fiscal agent and is therefore not budgeted. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

Tax Budget:

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year.

The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect amounts in the final amended certificate issued during fiscal year 2004. Before year end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

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

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds and the self insurance fund, consistent with statutory provisions.

Encumbrances:

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

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

D. Cash and Cash Equivalents

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

During fiscal year 2004, investments were limited to STAR Ohio and certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents (continued)

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$38,438. The classroom facilities fund and Lunchroom fund also received \$9,774, and \$178, respectively.

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

E. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five 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.

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

Description	Estimated Lives
Land Improvements	5 years
Buildings and Improvements	20-50 years
Furniture and Equipment	8 – 20 years
Vehicles	10 years
Infrastructure	50 years
Textbooks	5-15 years

F. 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 vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after 10 years of current service with the School District.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Compensated Absences (continued)

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due to each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

G. Accrued Liabilities and Long-Term Liabilities

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund statements to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid with current available financial resources. The entire bonds and capital leases liabilities are reported as a liability in the government-wide financial statements.

H. Interfund Transactions

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

I. Restricted Assets

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

J. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for contributions, encumbrances, property taxes, textbooks and instructional materials, capital improvements and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under accounting principles generally accepted in the United States of America but not available for appropriations under State statute.

K. Fund Designation

The School District designated \$185,522 for budget stabilization. See Note 19 for additional information regarding the budget stabilization set aside reserve.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Interfund Balances

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

N. 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 activities for food service operations, 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.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE AND NET ASSETS

For the fiscal year 2004, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements." GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on accrual basis of accounting and fund financial statements which present information by major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government. At June 30, 2004, the district does not have any organizations that qualify as a component unit of the primary government. Therefore, there was no effect on fund balance as a result of implementing GASB Statement 39.

The implementation of these Statements required that certain adjustments be recorded to the June 30, 2004, fund balances of major and non-major 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. In addition, the District increased their capital asset capitalization threshold from \$500 to \$5,000, causing a restatement to the beginning balance of \$1,124,951. An error in the prior year's ending capital lease obligation balance caused a restatement of \$15,548.

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE AND NET ASSETS
(Continued)

	General	Permanent Improvement	Classroom Facilities	Non - Major	Total
Fund Balances, June 30, 2003	\$ 1,057,695	\$ 665,158	\$ 871,201	\$ 493,176	\$ 3,087,230
Reclass of E-Rate Fund	24,438	0	0	(24,438)	0
Interpretation 6	16,270	0	0	1,409	17,679
Restated Fund Balances, June 30, 2003	<u>\$ 1,098,403</u>	<u>\$ 665,158</u>	<u>\$ 871,201</u>	<u>\$ 470,147</u>	<u>3,104,909</u>
Adjustments Necessary to Comply With GASB 34:					
Capital Assets					21,993,329
Debt					(2,033,187)
Compensated Absences					(315,417)
Payables					(106,083)
Deferred Revenue					46,641
Internal Service Fund					<u>81,204</u>
Net Assets, June 30, 2003					<u>\$ 22,771,396</u>

Internal Service Fund

Balance at 6/30/03	\$ (898)
Amount Restated	<u>82,102</u>
Balance at 7/1/03	<u>\$ 81,204</u>

Internal Service Fund had misstated prior year balances in the cash and intergovernmental payable line items.

NOTE 4 - ACCOUNTABILITY

At June 30, 2004, the Disadvantaged Pupil Impact Aid, the Chapter 1/Title 1 and the Lunchroom Special Revenue Funds had deficit fund balances/retained earnings of \$29,541, \$40, \$24,361, respectively, which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of accounting principles generally accepted in the United States of America (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 Balances - Budget and Actual (Budget Basis) – The General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (Budget Basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (Budget Basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (Budget Basis) rather than as a reservation of fund balance (GAAP basis).

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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

	Net Change in Fund Balance
	General
	<hr/>
GAAP Basis	\$273,800
Revenue Accruals	190,167
Expenditure Accruals	154,882
Encumbrances	(339,781)
	<hr/>
Budget Basis	<u>\$279,068</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 two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the School Districts 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 money deposited with the institution.

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

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

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

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

4. Bond 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 (STAR Ohio);
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Cash on Hand At year end, the School District had \$50 in undeposited cash on hand which is included on the balance sheet of the School District as part of Equity in Pooled Cash and Cash Equivalents.

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 year end, the carrying amount of the School District's deposits was \$284,138 and the bank balance was \$327,465. Of the bank balance:

1. \$103,067 was covered by federal depository insurance; and
2. \$224,398 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the 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 investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Fair/Carrying Value
STAR Ohio	\$4,133,344

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

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

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

	Cash and Cash Equivalents/ Deposits	Investments
<i>GASB Statement No. 9</i>	\$4,417,532	\$0
Cash on Hand	(50)	0
STAR Ohio	(4,133,344)	4,133,344
<i>GASB Statement No. 3</i>	\$284,138	\$4,133,344

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 located in the School District. Property tax revenue received during calendar 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) are for calendar 2004 taxes.

2004 real property taxes are levied after April 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

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

2004 tangible personal property taxes are levied after April 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

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

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

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

NOTE 7 - PROPERTY TAXES (Continued)

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$55,360,630	91.76%	\$56,247,180	90.53%
Public Utility	20,840	0.05%	20,840	0.03%
Tangible Personal Property	5,747,280	8.19%	5,865,280	9.44%
Total Assessed Value	<u>\$61,128,750</u>	<u>100.00%</u>	<u>\$62,133,300</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$35.50		\$35.50	

The School District receives property taxes from Ross 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 represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004, was \$134,541 in the General Fund, \$2,993 in the Classroom Facilities Maintenance Special Revenue Fund, \$16,812 in the Debt Service Fund, and \$10,726 in the Permanent Improvement Capital Projects Fund.

NOTE 8 - RECEIVABLES

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

A summary of the principal items of intergovernmental receivables is as follows:

Non-Major Special Revenue Funds	<u>Total</u>
Summer School Subsidy	\$ 6,560
Chapter 1/Title 1	<u>37,256</u>
Total Non-Major Funds	43,816
Internal Service Fund	<u>93,454</u>
Total Intergovernmental Receivable	<u>\$ 137,270</u>

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

NOTE 9 - CAPITAL ASSETS

A summary of the changes in capital assets during fiscal year 2004 follows:

	Beginning Balance * 6/30/2003	Additions	Deletions	Ending Balance 6/30/2004
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 35,188	\$ -	\$ -	\$ 35,188
Total Capital Assets, Not Being Depreciated	35,188	-	-	35,188
Capital Assets, Being Depreciated				
Land Improvements	1,266,541	-	-	1,266,541
Buildings and Building Improvements	22,964,387	6,200	-	22,970,587
Furniture and Equipment	1,287,387	6,000	-	1,293,387
Vehicles	1,042,592	63,116	-	1,105,708
Infrastructure	6,222	-	-	6,222
Textbooks	357,341	-	-	357,341
Total Capital Assets, Being Depreciated	26,924,470	75,316	-	26,999,786
Accumulated Depreciation				
Land Improvements	(313,249)	(45,981)	-	(359,230)
Buildings and Building Improvements	(3,498,096)	(686,485)	-	(4,184,581)
Furniture and equipment	(115,765)	(97,625)	-	(213,390)
Vehicles	(694,950)	(87,888)	-	(782,838)
Infrastructure	(21)	(249)	-	(270)
Textbooks	(344,248)	(8,729)	-	(352,977)
Total Accumulated Depreciation	(4,966,329)	(926,957)	-	(5,893,286)
Governmental Activities Capital Assets, Net	<u>\$ 21,993,329</u>	<u>\$ (851,641)</u>	<u>\$ -</u>	<u>\$ 21,141,688</u>

* As Restated- See Note 3

Depreciation expense was charged to governmental functions as follows:

Regular Instruction	\$678,193
Vocational Instruction	284
S.S. – Instructional Staff	8,729
S.S. – Administration	13,716
S.S. – Operations	109,136
S.S. – Pupil Transportation	92,857
Operation of Non-Instructional Services	6,483
Extra-Curricular Activities	<u>17,559</u>
Total	<u>\$926,957</u>

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

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Nationwide Insurance for property and fleet insurance, and Marsh Insurance of Cincinnati provided liability and inland marine coverage.

Coverages provided by Nationwide Insurance are as follows:

Building and Contents-replacement cost (\$2,500 deductible)	\$30,129,557
Inland Marine Coverage (\$250 deductible)	1,239,382
Automobile Liability (\$250 deductible)	2,000,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000

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

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 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 participants individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the Equity Pooling Fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member the Ross County School Employees Insurance Consortium, a claims servicing pool, consisting of eighteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$107,630 reported in the internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not included other allocated or unallocated claims adjustment expenses.

Changes in claims activity for the fiscal year follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2002	\$211,680	\$806,231	\$821,900	\$196,011
2003	196,011	742,589	847,127	91,473
2004	91,473	745,639	729,482	107,630

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. For fiscal year 2004, 9.09% was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the years ended June 30, 2004, 2003, and 2002 were \$71,192, \$35,378, and \$36,370, respectively. 13% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$94,877 represents the unpaid contribution for fiscal year 2004.

State Teachers Retirement System

The School District contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

State Teachers Retirement System (Continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

State Teachers Retirement System (Continued)

For fiscal year 2004 plan members are required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were \$539,683, \$422,686, and \$333,092, respectively; 83% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$89,604 represents the unpaid contribution for fiscal year 2004 and is recorded as a liability within the respective funds.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$47,899 for fiscal year 2004.

STRS 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 were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. 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. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$144,973.

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 \$335.6 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.

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

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days for all personnel. Upon retirement, payment is made for thirty percent of accrued, but unused sick leave credit to a maximum of 60 days.

B. Life and Accident Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Cairnstone, Inc.

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2004, the School District did not enter into any new capital leases. In previous fiscal years, the School District entered into capital leases for equipment and furniture and fixtures. Each lease meets the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statement.

The gross amount of capital leases being disclosed in Note 9 under furniture and equipment totals \$429,810.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30,	<u>Amount</u>
2005	\$112,538
2006	106,114
2007	35,454
2008	<u>14,773</u>
Total	268,879
Less Amount Representing Interest	<u>(24,646)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$244,233</u></u>

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

NOTE 15 - LONG-TERM OBLIGATIONS (Continued)

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

	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04	Amount Due Within One Year
School Improvement General Obligation Bonds 5.25%	1,695,000	0	60,000	1,635,000	60,000
Capital Leases*	338,187	0	93,954	244,233	99,154
Compensated Absences	315,417	345,353	315,417	345,353	11,239
Total General Long-Term Obligations	\$2,348,604	\$345,353	\$469,371	\$2,224,586	\$170,393

*As Restated- See Note 3

On July 10, 1998, the School District issued long-term general obligation bonds in the amount of \$1,945,800, as a result of the School District being approved for a \$15,430,564 school facilities loan through the State Department of Education for the construction of an education complex. The 5.25% bonds will be retired in December 2021 and are being paid from the debt service fund. As a requirement of the loans, the School District was required to pass a 3.7 mill levy. The 3.7 mill levy, of which .25 mill was to be used for the retirement of the loan and .25 mill was to be used for maintenance, with the balance of 3.2 mills to be used for the retirement of the long-term bonds issued, will be in effect for twenty-three years.

The Paint Valley Local School District has been notified by the Ohio School Facilities Commission that they will not be responsible for repaying the \$15,430,564 classroom facilities loan to the State because the School District's adjusted valuation per pupil (currently 437 out of 611 schools) was less than the state-wide median adjusted valuation per pupil. In lieu of the repayment, the School District must set aside the funds that would have been used for repayment for facilities maintenance. As part of this process, the School District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the twenty-three year period expires. If the School District's adjusted valuation per pupil increases above the state-wide median adjusted valuation during the twenty-three year period, the School District may become responsible for repayment of a portion of the State's contribution.

Capital leases will be paid from the General Fund. The compensated absences will be paid from the funds from which the employees salaries are paid.

The School District's overall legal debt margin was \$3,956,997 with an unvoted debt margin of \$62,133.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2004, are as follows:

Year	Principal	Interest	Total
2005	\$ 60,000	\$ 83,149	\$ 143,149
2006	65,000	79,868	144,868
2007	70,000	76,324	146,324
2008	70,000	72,649	142,649
2009	80,000	68,711	148,711
2010-2014	440,000	278,634	718,634
2015-2019	575,000	148,850	723,850
Thereafter	275,000	14,430	289,430
Totals	\$ 1,635,000	\$ 822,615	\$ 2,457,615

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

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the participating member counties, two school treasurers, plus one representative from the fiscal agent. The School District paid SCOCA \$68,135 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County CTC District Treasurer, at P.O. Box 577, 23365 St. Rt. 124, Piketon, Ohio 45661.

Pickaway-Ross County Career and Technical Center (CTC) - The Pickaway-Ross County CTC is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various City and County Boards within Pickaway and Ross Counties, each of which possesses its own budgeting and taxing authority. The School District did not have any financial transaction with the CTC during the fiscal year. The School District paid \$1,937 for services provided during the year. To obtain financial information write to the Pickaway-Ross County CTC, Ben Vanhorn, who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

Great Seal Education Network of Tomorrow - The Great Seal Education Network of Tomorrow is a regional council of governments (the Council) consisting of twelve city, local, and joint vocational school districts, two educational service centers and the Ohio University-Chillicothe Campus for the purpose of promoting the use of advanced telecommunications and technology to provide enhanced educational opportunities to the communities of Ross and Pickaway Counties. The Council is operated under the direction of a Board of Directors consisting of one representative (the superintendent or another person appointed by the board of education) of each of the members, each of which possess its own budgeting and taxing authority. The School District did not pay for any services provided during the year. To obtain financial information, write to the Ohio University-Chillicothe Campus, who acts as fiscal agent, at 571 West Fifth Street, Chillicothe, Ohio 45601.

NOTE 17 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

Ross County School Employees Insurance Consortium - The School District is a member of the Ross County School Employees Insurance Consortium (the Consortium), a claims servicing pool consisting of fourteen school districts within Ross County and its surrounding area. The Consortium provides medical/surgical, dental, vision, or life insurance through a third party administrator, Professional Risk Management Co., depending on which coverage's the individual member district chooses. The Consortium business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the Westfall Local School District, 19463 Pherson Pike, Williamsport, Ohio 43164-9745.

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

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

NOTE 18 - SCHOOL FUNDING

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

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

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

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

For fiscal year ended June 30, 2004, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers Compensation, which must be retained for budget stabilization or spent for specified purposes. The balance of the budget stabilization reserve, \$185,522, which did not represent BWC rebates or refunds has been recorded as a fund designation in the General fund and will be used in accordance with Section 5705.13 Revised Code.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	\$356,225	\$0	\$34,850
Current Year Set-aside Requirement	140,413	140,413	0
Current Year Disbursements	<u>0</u>	<u>(133,234)</u>	<u>0</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$496,638</u>	<u>\$7,179</u>	<u>\$34,850</u>
Set-aside Reserve Balance as of June 30, 2004	<u><u>\$496,638</u></u>	<u><u>\$7,179</u></u>	<u><u>\$34,850</u></u>

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

NOTE 20 - INTERFUND ACTIVITY

Interfund Payables/Receivables

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

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Funds:		
General Fund	\$ 1,429	\$ -
Special Revenue Funds, Non-Major:		
Summer School Subsidy	-	1,429
Total Special Revenue Funds	-	1,429
Totals	<u>\$ 1,429</u>	<u>\$ 1,429</u>

During the year, the School District's General Fund made advances to other funds in anticipation of intergovernmental grant revenue.

Interfund Transfers

During the fiscal year ended June 30, 2004, transfers that resulted from various interfund transactions were as follows:

	<u>Transfer From</u>	<u>Transfer To</u>
Major Funds:		
General Fund	\$ 55,000	\$ -
Non-Major Funds		
Cafeteria/Lunchroom Fund	-	55,000
Total	<u>\$ 55,000</u>	<u>\$ 55,000</u>

During the year, The District's General Fund made a transfer to the Cafeteria/Lunchroom fund to cover expenditures incurred by the Cafeteria/Lunchroom fund not covered by user charges.

NOTE 21 - CONTINGENCIES

Grants

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

Litigation

The School District is not party to legal proceedings.

Paint Valley Local School District
Ross County

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

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>United States Department of Agriculture</u>						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	N/A	10.550	\$0	\$26,816	\$0	\$26,816
National School Breakfast Program	05PU	10.553	25,143	0	25,143	0
National School Lunch Program	LLP4	10.555	<u>112,393</u>	<u>0</u>	<u>112,393</u>	<u>0</u>
Total Nutrition Cluster			137,536	26,816	137,536	26,816
Team Nutrition Grants	TWSU	10.574	<u>10,000</u>	<u>0</u>	<u>2,047</u>	<u>0</u>
Total United States Department of Agriculture			<u>147,536</u>	<u>26,816</u>	<u>139,583</u>	<u>26,816</u>
<u>United States Department of Education</u>						
<i>Passed through Ohio Department of Education</i>						
Title I	C1S1/C1SD	84.010	385,056	0	373,737	0
Special Education State Grants	6BSF/6BSD	84.027	180,459	0	194,675	0
Safe and Drug Free Schools	DRS1	84.186	10,481	0	8,481	0
Eisenhower Grant	MSS1	84.281	0	0	234	0
Innovative Education Program Strategy	C2S1	84.298	7,046	0	11,190	0
Education Technology	TJS1	84.318	8,771	0	4,541	0
Rural Education	RUS1	84.358	30,710	0	30,710	0
Improving Teacher Quality State Grant	TRS1	84.367	78,191	0	78,361	0
Total United States Department of Education			<u>700,714</u>	<u>0</u>	<u>701,929</u>	<u>0</u>
Total Federal Financial Assistance			<u>\$848,250</u>	<u>\$26,816</u>	<u>\$841,512</u>	<u>\$26,816</u>

N/A-Not Available

See accompanying notes to schedule of federal awards expenditures

PAINT VALLEY LOCAL SCHOOL DISTRICT
Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -FOOD DISTRIBUTIONS

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

BALESTRA, HARR & SCHERER CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

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Piketon, Ohio 45661

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Ohio Society of Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board
Paint Valley Local School District
7454 US Route 50
Bainbridge, Ohio 45612

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Paint Valley Local School District (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 14, 2005, in which we indicated the School District adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, 39, and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

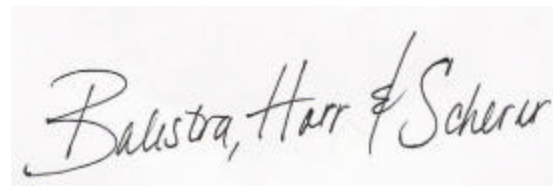
Members of the Board

Paint Valley Local School District

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

Page 2

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

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

Balestra, Harr & Scherer CPAs, Inc.

April 14, 2005

BALESTRA, HARR & SCHERER CPAs, INC.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board
Paint Valley Local School District
7454 US Route 50
Bainbridge, Ohio 45612

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 of the School District's compliance with those requirements.

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

Members of the Board

Paint Valley Local School District

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

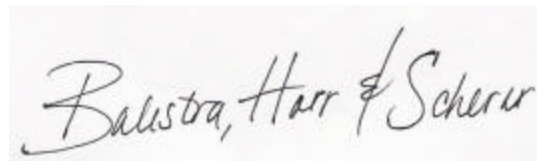
Page 2

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Balestra, Harr & Scherer CPAs, Inc.

April 14, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY
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 noncompliance 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 section .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010, Title I
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

PAINT VALLEY LOCAL SCHOOL DISTRICT
ROSS COUNTY
JUNE 30, 2004

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

Finding Number	None
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	



**Auditor of State
Betty Montgomery**

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PAINT VALLEY LOCAL SCHOOL DISTRICT

ROSS 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
JUNE 2, 2005**