



**Auditor of State
Betty Montgomery**

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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

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

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Twin Valley Community Local School District, Preble County, Ohio, as of June 30, 2005, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2005, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

March 1, 2006

Twin Valley Community Local School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005

The discussion and analysis of Twin Valley Community Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005, within the limitations of the School District's modified cash basis of accounting. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$5,501, which represents a less than one percent increase from 2004.
- General receipts accounted for \$7,959,351 in receipts or 84.7 percent of all receipts. Program specific receipts in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$1,435,724 or 15.3 percent of total receipts of \$9,395,075.
- The School District had \$9,389,574 in disbursements; only \$1,435,724 of these disbursements were offset by program specific charges for services, grants, and contributions.

Using The Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

Report Components

The statement of net assets and statement of activities provide information about the cash activities as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanations and details regarding the information reported in the statements.

Twin Valley Community Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities – Modified Cash Basis

The statement of net assets and the statement of activities reflect how the School District did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services, and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental program draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other nonfinancial factors as well, such as the School District's property tax base, the condition of the School District's capital assets, the extent of the School District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

Twin Valley Community Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds, not the School District as a whole. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Debt Service Fund.

Governmental Funds

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 fiscal year-end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs.

Twin Valley Community Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

The School District as a Whole

Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

Table 1		Net Assets	
	2005	(Restated)	2004
	<u>2005</u>		<u>2004</u>
Assets:			
Current Assets	\$1,504,911		\$1,066,301
Capital Assets	11,488,159		12,066,268
<i>Total Assets</i>	<u>12,993,070</u>		<u>13,132,569</u>
Liabilities:			
Current Liabilities	155,000		145,000
Long-Term Liabilities	3,115,000		3,270,000
<i>Total Liabilities</i>	<u>3,270,000</u>		<u>3,415,000</u>
Net Assets:			
Invested in Capital Assets,			
Net of Related Debt	8,218,159		8,651,268
Restricted	456,688		485,577
Unrestricted	1,048,223		580,724
<i>Total Net Assets</i>	<u>\$9,723,070</u>		<u>\$9,717,569</u>

Total assets of governmental activities decreased. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, increased primarily due to a revision in personal property tax resulting in additional personal property tax income. To a lesser degree, the increase was also due to the School District being at the 20 mill floor and to an increase in per pupil funding from the State of Ohio.

Twin Valley Community Local School District

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Table 2 shows the changes in net assets for fiscal year 2005. Since this is the first year the School District has prepared modified cash financial statements, receipt and disbursement comparisons to fiscal year 2004 are not available. In future years, when prior-year information is available, a comparative analysis of district-wide data will be presented.

Table 2
Change in Net Assets

	<u>2005</u>
Receipts:	
Program Cash Receipts:	
Charges for Services	\$513,770
Operating Grants and Contributions	909,682
Capital Grants and Contributions	12,272
<i>Total Program Cash Receipts</i>	<u>1,435,724</u>
General Receipts:	
Property Taxes Levied for:	
General Purposes	2,416,737
Other Purposes	42,899
Debt Service	339,366
Income Tax	691,262
Grants and Entitlements not Restricted to	
Specific Programs	4,374,594
Investment Earnings	30,193
Miscellaneous	64,300
<i>Total General Revenues</i>	<u>7,959,351</u>
<i>Total Revenues</i>	<u>9,395,075</u>
Cash Disbursements:	
Instruction:	
Regular	3,970,944
Special	918,399
Vocational	231,560
Support Services:	
Pupils	234,261
Instructional Staff	377,978
Board of Education	115,496
Administration	899,252
Fiscal	197,648
Operation and Maintenance of Plant	821,425

(continued)

Twin Valley Community Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Table 2
 Changes in Net Assets (continued)

	2005
Pupil Transportation	\$561,263
Central	73,384
Operation of Non-Instructional Services	446,068
Extracurricular Activities	330,108
Interest and Fiscal Charges	211,788
<i>Total Disbursements</i>	9,389,574
<i>Increase in Net Assets</i>	\$5,501

Governmental Activities

The unique nature of taxes in Ohio creates the need to routinely seek voter approval for the School District's operations. Property taxes and income taxes made up 37.1 percent of receipts for governmental activities for the Twin Valley Community Local School District for fiscal year 2005.

Instruction comprises 54.5 percent of School District disbursements. Support services disbursements make up 34.9 percent of the disbursements.

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

Table 3
 Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005
Instruction	\$5,120,903	(\$4,282,794)
Support Services	3,280,707	(3,203,746)
Operation of Non-Instructional Services	446,068	(13,323)
Extracurricular Activities	330,108	(242,199)
Interest and Fiscal Charges	211,788	(211,788)
<i>Total Disbursements</i>	\$9,389,574	(\$7,953,850)

Twin Valley Community Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$9,395,075 and disbursements of \$8,956,465. The net change in fund balance for the General Fund and the Bond Retirement Debt Service Fund was \$468,119 and \$11,956, respectively, which was primarily due to a revision in personal property tax resulting in additional personal property tax income.

General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the School District amended its General Fund budget three times, which resulted in final appropriations increasing \$273,304. The increase was due to general changes in the operation of the School District. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, the final budget basis revenue estimate increased from the original budget basis revenue by \$615,000. The most significant change was in intergovernmental receipts because of an increase in State aid of the per pupil amount, and in property tax receipts due to a revision in personal property tax.

Capital Assets

At the end of fiscal year 2005, the School District had \$11,488,159 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles.

Table 4 shows fiscal 2005 balances compared to 2004.

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

	<u>2005</u>	<u>2004</u>
Land	\$336,998	\$336,998
Land Improvements	127,548	133,793
Buildings and Improvements	10,774,904	11,240,639
Furniture, Fixtures, and Equipment	86,869	222,499
Vehicles	161,840	132,339
<i>Totals</i>	<u>\$11,488,159</u>	<u>\$12,066,268</u>

Twin Valley Community Local School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Overall capital assets decreased \$578,109 from fiscal year 2004 to fiscal year 2005. Increases in capital assets (furniture, fixtures, and equipment and vehicles) were not enough to offset the depreciation disbursement for the year. Additions during the year were for two Dell Servers and a School Bus. For more information on capital assets, see Note 8 of the Basic Financial Statements.

Debt Administration

At June 30, 2005 the School District had \$3,270,000 in general obligation bonds outstanding, of which \$155,000 is due within one year. Table 5 summarizes the bonds outstanding:

Table 5
Outstanding Debt, at Year End
Governmental Activities

	<u>2005</u>	<u>2004</u>
1994 General Obligation Bonds	<u>\$3,270,000</u>	<u>\$3,415,000</u>

On July 1, 1994 the School District issued \$4,285,000 in voted general obligation bonds for the purpose of the acquisition, construction, reconstruction, and other improvements to the school building. The bonds were issued for a twenty-three year period with final maturity on June 1, 2017.

At June 30, 2005, the School District's overall legal debt limitation was \$5,568,930, with an unvoted debt margin of \$96,057 at June 30, 2005.

For more information on the School District's debt, see Note 12 of the Basic Financial Statements.

Contacting the School District's Financial Management

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

Twin Valley Community Local School District
Statement of Net Assets - Modified Cash Basis
June 30, 2005

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$1,504,911
Nondepreciable Capital Assets	336,998
Depreciable Capital Assets, Net	11,151,161
<i>Total Assets</i>	12,993,070
Liabilities:	
Long-Term Liabilities:	
Due Within One Year	155,000
Due in More Than One Year	3,115,000
<i>Total Liabilities</i>	3,270,000
Net Assets:	
Invested in Capital Assets, Net of Related Debt	8,218,159
Restricted for:	
Debt Service	193,766
Capital Projects	28,996
Other Purposes	233,926
Unrestricted	1,048,223
<i>Total Net Assets</i>	\$9,723,070

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District

Statement of Activities - Modified Cash Basis

For the Fiscal Year Ended June 30, 2005

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$3,970,944	\$115,185	\$61,064	\$0	(\$3,794,695)
Special	918,399	26,720	590,551	0	(301,128)
Vocational	231,560	0	44,589	0	(186,971)
Support Services:					
Pupils	234,261	0	22,467	0	(211,794)
Instructional Staff	377,978	0	36,174	0	(341,804)
Board of Education	115,496	0	0	0	(115,496)
Administration	899,252	0	0	0	(899,252)
Fiscal	197,648	0	0	0	(197,648)
Operation and Maintenance of Plant	821,425	0	0	0	(821,425)
Pupil Transportation	561,263	0	0	12,272	(548,991)
Central	73,384	0	6,048	0	(67,336)
Operation of Non-Instructional Services	446,068	283,956	148,789	0	(13,323)
Extracurricular Activities	330,108	87,909	0	0	(242,199)
Interest and Fiscal Charges	211,788	0	0	0	(211,788)
Total Governmental Activities	\$9,389,574	\$513,770	\$909,682	\$12,272	(7,953,850)

General Receipts:

Property Taxes Levied for:	
General Purposes	2,416,737
Other Purposes	42,899
Debt Service	339,366
Income Tax	691,262
Grants and Entitlements not Restricted to Specific Programs	4,374,594
Investment Earnings	30,193
Miscellaneous	64,300
Total General Receipts	7,959,351
 <i>Change in Net Assets</i>	 5,501
 <i>Net Assets Beginning of Year - Restated (Note 3)</i>	 9,717,569
<i>Net Assets End of Year</i>	9,723,070

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
June 30, 2005

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$1,034,827	\$193,766	\$276,318	\$1,504,911
Fund Balances:				
Reserved for Encumbrances	\$44,166	\$0	\$49,873	\$94,039
Unreserved, Undesignated, Reported in:				
General Fund	990,661	0	0	990,661
Special Revenue Funds	0	0	212,449	212,449
Debt Service Fund	0	193,766	0	193,766
Capital Projects Funds	0	0	13,996	13,996
<i>Total Fund Balances</i>	<u>\$1,034,827</u>	<u>\$193,766</u>	<u>\$276,318</u>	<u>\$1,504,911</u>

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities - Modified Cash Basis
 June 30, 2005*

Total Governmental Fund Balances \$1,504,911

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

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

Land	336,998	
Land Improvements	229,826	
Buildings and Improvements	15,638,019	
Furniture, Fixtures, and Equipment	1,784,334	
Vehicles	661,034	
Accumulated Depreciation	(7,162,052)	
		11,488,159

General obligation bonds are not due and payable in the current period
 and therefore are not reported in the funds. (3,270,000)

Net Assets of Governmental Activities \$9,723,070

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Modified Cash Basis
 Governmental Funds
 For the Fiscal Year Ended June 30, 2005

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Receipts:				
Property Taxes	\$2,416,737	\$339,366	\$42,899	\$2,799,002
Income Tax	691,262	0	0	691,262
Tuition and Fees	67,855	0	42,201	110,056
Extracurricular Activities	0	0	87,909	87,909
Interest	28,590	0	1,603	30,193
Intergovernmental	4,628,947	38,262	629,339	5,296,548
Charges for Services	0	0	283,956	283,956
Rent	31,849	0	0	31,849
Miscellaneous	15,496	0	48,804	64,300
<i>Total Receipts</i>	<u>7,880,736</u>	<u>377,628</u>	<u>1,136,711</u>	<u>9,395,075</u>
Disbursements:				
Current:				
Instruction:				
Regular	3,322,396	0	101,452	3,423,848
Special	554,459	0	362,477	916,936
Vocational	222,993	0	3,150	226,143
Support Services:				
Pupils	211,460	0	22,801	234,261
Instructional Staff	312,101	0	59,704	371,805
Board of Education	115,496	0	0	115,496
Administration	883,368	8,884	1,136	893,388
Fiscal	197,648	0	0	197,648
Operation and Maintenance of Plant	782,107	0	34,964	817,071
Pupil Transportation	560,950	0	0	560,950
Central	67,336	0	6,048	73,384
Operation of Non-Instructional Services	0	0	419,074	419,074
Extracurricular Activities	176,977	0	147,038	324,015
Capital Outlay	5,326	0	20,332	25,658
Debt Service:				
Principal Retirement	0	145,000	0	145,000
Interest and Fiscal Charges	0	211,788	0	211,788
<i>Total Disbursements</i>	<u>7,412,617</u>	<u>365,672</u>	<u>1,178,176</u>	<u>8,956,465</u>
<i>Net Change in Fund Balances</i>	468,119	11,956	(41,465)	438,610
<i>Fund Balances at Beginning of Year-Restated (Note 3)</i>	<u>566,708</u>	<u>181,810</u>	<u>317,783</u>	<u>1,066,301</u>
<i>Fund Balances at End of Year</i>	<u>\$1,034,827</u>	<u>\$193,766</u>	<u>\$276,318</u>	<u>\$1,504,911</u>

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
*Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Fund Balances
of Governmental Funds to the Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds \$438,610

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

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

In the current period, these amounts are:

Capital Outlay	66,069	
Current Year Depreciation Expense	<u>(642,244)</u>	
Excess of Depreciation Expense over Capital Outlay		(576,175)

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

Loss on Disposal of Capital Assets		(1,934)
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Repayment of general obligation bonds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

145,000

Change in Net Assets of Governmental Activities

\$5,501

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Receipts:				
Property Taxes	\$2,145,000	\$2,360,000	\$2,416,737	\$56,737
Income Tax	650,000	650,000	691,262	41,262
Tuition and Fees	53,100	53,100	67,855	14,755
Interest	18,000	18,000	27,831	9,831
Intergovernmental	4,144,700	4,544,700	4,620,757	76,057
Rent	23,000	23,000	31,849	8,849
Miscellaneous	0	0	15,426	15,426
<i>Total Receipts</i>	7,033,800	7,648,800	7,871,717	222,917
Disbursements:				
Current:				
Instruction:				
Regular	3,306,748	3,366,755	3,315,940	50,815
Special	720,200	720,200	555,122	165,078
Vocational	227,040	227,040	223,577	3,463
Other	17,000	17,000	14,363	2,637
Support Services:				
Pupils	217,580	217,580	211,863	5,717
Instructional Staff	303,330	303,330	312,844	(9,514)
Board of Education	99,000	116,000	119,246	(3,246)
Administration	881,201	923,200	893,349	29,851
Fiscal	172,930	200,230	198,741	1,489
Operation and Maintenance of Plant	743,851	815,850	795,611	20,239
Pupil Transportation	527,581	571,580	566,011	5,569
Central	63,960	63,960	67,336	(3,376)
Extracurricular Activities	166,750	174,750	177,454	(2,704)
Capital Outlay	3,000	6,000	5,326	674
<i>Total Disbursements</i>	7,450,171	7,723,475	7,456,783	266,692
<i>Excess of Receipts Over (Under) Disbursements</i>	(416,371)	(74,675)	414,934	489,609
Other Financing Sources:				
Refund of Prior Year Disbursements	30,000	30,000	8,260	(21,740)
<i>Net Change in Fund Balance</i>	(386,371)	(44,675)	423,194	467,869
<i>Fund Balance at Beginning of Year</i>	497,604	497,604	497,604	0
<i>Prior Year Encumbrances Appropriated</i>	67,499	67,499	67,499	0
<i>Fund Balance at End of Year</i>	\$178,732	\$520,428	\$988,297	\$467,869

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$76,479	\$34,964
Liabilities:		
Due to Students	0	\$34,964
Net Assets:		
Held in Trust for Scholarships	\$76,479	

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District
Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
Additions:	
Interest	\$877
Contributions	2,250
<i>Total Additions</i>	3,127
 Deductions:	
Payments in Accordance with Trust Agreements	5,070
 <i>Change in Net Assets</i>	 (1,943)
 <i>Net Assets Beginning of Year</i>	 78,422
 <i>Net Assets End of Year</i>	 \$76,479

See Accompanying Notes to the Basic Financial Statements

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District participates in three jointly governed organizations, two insurance purchasing pools and one shared risk pool. These organizations include the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Instructional Technology Association (SOITA), the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), the Ohio School Plan (OSP), and the Preble County Consortium (the "Consortium"), respectively. These organizations are presented in Notes 13, 14 and 15 to the basic financial statements.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis Of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District, however, has no activities which are reported as business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions.

The statement of net assets presents the cash balance, capital assets and debt of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The School District divides its funds into two categories: governmental and fiduciary.

Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

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

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

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds:

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

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Cash and Cash Equivalents

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

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash and cash equivalents.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During fiscal year 2005, the School District's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

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 2005 amounted to \$28,590, which includes \$12,760 assigned from other School District funds.

E. Capital Assets and Depreciation

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

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

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

F. Long-Term Obligations

Long-term obligations are reported in the government-wide financial statements. The School District reported a liability for general obligation bonds, which arose from cash transactions.

G. Net Assets

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 or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and State grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reports \$456,688 of restricted net assets, of which \$20,480 are restricted by enabling legislation.

H. Fund Balance Reserves

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

I. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Estimates

The modified cash basis of accounting used by the School District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

K. Budgetary Process

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

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

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year, including all supplemental appropriations.

NOTE 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCE

A. Change in Basis of Accounting

For 2005, the School District ceased to report using generally accepted accounting principles and reported on the modified cash basis as described in Note 2C.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCE (continued)

B. Restatement of Fund Balance

The change in basis of accounting had the following effects on fund equity of the major and nonmajor funds of the School District as they were previously reported. The effect on net assets of governmental activities is also presented.

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Fund Balance June 30, 2004	\$220,746	\$187,210	\$321,347	\$729,303
Eliminate Asset Accruals	(2,388,290)	(304,793)	(69,394)	(2,762,477)
Eliminate Prepaid Items	(19,330)	0	0	(19,330)
Eliminate Materials and Supplies Inventory	(38,243)	0	(19,838)	(58,081)
Eliminate Liability Accruals	2,791,825	299,393	85,668	3,176,886
Adjusted Fund Balance June 30, 2004	<u>\$566,708</u>	<u>\$181,810</u>	<u>\$317,783</u>	<u>\$1,066,301</u>

Governmental Activities Net Assets June 30, 2004	\$9,234,601
Eliminate Government-Wide Financial Statement Adjustments:	
Intergovernmental Receivable	(28,142)
Prepaid Items	(19,330)
Accounts Receivable	(23,896)
Property Taxes Receivable	(2,343,625)
Income Taxes Receivable	(366,814)
Materials and Supplies Inventory	(58,081)
Accounts Payable	22,489
Accrued Interest Payable	17,981
Accrued Wages and Benefits Payable	577,228
Early Retirement Incentive Payable	6,000
Matured Compensated Absences Payable	36,503
Intergovernmental Payable	238,232
Compensated Absences	191,160
Deferred Revenue	2,233,263
Adjusted Governmental Activities Net Assets June 30, 2004	<u>\$9,717,569</u>

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The statement of receipts, disbursements and changes in fund balance – budget and actual – budget basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are: outstanding year-end encumbrances, which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis); and unrecorded cash, which represents amounts received but not included on the budget basis operating statement. This amount is included as revenue on the modified cash basis operating statement.

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

Net Change in Fund Balance

Modified Cash Basis	\$468,119
Unrecorded Cash - Fiscal Year 2004	1,605
Unrecorded Cash - Fiscal Year 2005	(2,364)
Adjustment for Encumbrances	(44,166)
Budget Basis	<u><u>\$423,194</u></u>

NOTE 5 - DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State Statute into three categories.

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

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

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$322,483 of the School District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Credit Risk

As of June 30, 2005, the School District's only investment was in STAROhio. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date.

Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 6 - PROPERTY TAXES (continued)

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

The School District receives property taxes from Preble County. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$80,047,810	85.51%	\$81,214,670	84.55%
Public Utility	7,582,040	8.10	8,276,290	8.62
Tangible Personal Property	5,984,912	6.39	6,566,413	6.83
Total Assessed Value	<u>\$93,614,762</u>	<u>100.00%</u>	<u>\$96,057,373</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.48		\$44.48	

NOTE 7 - INCOME TAX

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

Twin Valley Community Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 - CAPITAL ASSETS

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

	Balance 6/30/04	Additions	Deductions	Balance 6/30/05
Governmental Activities				
Capital Assets, not Being Depreciated:				
Land	\$336,998	\$0	\$0	\$336,998
Capital Assets, Being Depreciated:				
Land Improvements	229,826	0	0	229,826
Buildings and Improvements	15,638,019	0	0	15,638,019
Furniture, Fixtures, and Equipment	1,780,330	8,414	(4,410)	1,784,334
Vehicles	606,879	57,655	(3,500)	661,034
Total Capital Assets, Being Depreciated	<u>18,255,054</u>	<u>66,069</u>	<u>(7,910)</u>	<u>18,313,213</u>
Less Accumulated Depreciation:				
Land Improvements	(96,033)	(6,245)	0	(102,278)
Buildings and Improvements	(4,397,380)	(465,735)	0	(4,863,115)
Furniture, Fixtures, and Equipment	(1,557,831)	(143,860)	4,226	(1,697,465)
Vehicles	(474,540)	(26,404)	1,750	(499,194)
Total Accumulated Depreciation	<u>(6,525,784)</u>	<u>(642,244) *</u>	<u>5,976</u>	<u>(7,162,052)</u>
Capital Assets, Being Depreciated, Net	<u>11,729,270</u>	<u>(576,175)</u>	<u>(1,934)</u>	<u>11,151,161</u>
Governmental Activities Capital Assets, Net	<u>\$12,066,268</u>	<u>(\$576,175)</u>	<u>(\$1,934)</u>	<u>\$11,488,159</u>

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 8 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$585,757
Special	1,463
Vocational	5,417
Support Services:	
Instructional Staff	6,173
Administration	5,864
Operation and Maintenance of Plant	4,170
Pupil Transportation	313
Operation of Non-Instructional Services	26,994
Extracurricular Activities	6,093
Total Depreciation Expense	<u><u>\$642,244</u></u>

NOTE 9 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Erie Insurance Group for fleet insurance, and with Westfield Companies for insurance for its school building and contents.

Coverage provided by Erie Insurance Group includes the following:

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

Coverage provided by Westfield Companies includes the following:

School building and contents (\$1,000 deductible)	\$25,196,900
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During fiscal year 2005, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to OSP. (See Note 14).

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9 - RISK MANAGEMENT (continued)

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

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

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

B. Workers' Compensation

For fiscal year 2005, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Intergrated Comp, Inc. provides administrative, cost control and actuarial services to the GRP.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9 - RISK MANAGEMENT (continued)

C. Employee Medical Benefits

For fiscal year 2005, the School District participated in the Preble County Consortium (the Consortium), a shared risk pool consisting of five local school districts and an educational service center (See Note 15). The School District pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all the Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$110,989, \$92,110, and \$90,202, respectively; the full amount has been contributed for all three fiscal years.

B. State Teachers Retirement System of Ohio

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$479,063, \$445,735, and \$443,876, respectively; the full amount has been contributed for all three fiscal years. Contributions to the DC and Combined Plans for fiscal year 2005 were \$3,851 made by the School District and \$4,247 made by the plan members.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$36,851 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 11 - POSTEMPLOYMENT BENEFITS (continued)

After the allocation for basic benefits, the remainder of the employer’s 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer’s SERS salaries. For the School District, the amount contributed to fund health care benefits during the 2005 fiscal year equaled \$51,987.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113 and the target level was \$267.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the School District’s long-term obligations during fiscal year 2005 were as follows:

	Principal Outstanding 6/30/04	Additions	Deductions	Principal Outstanding 6/30/05	Amounts Due in One Year
	<u>6/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>6/30/05</u>	<u>One Year</u>
<u>Governmental Activities</u>					
School Improvement General					
Obligation Bonds 1994 - 6.30%	\$3,415,000	\$0	\$145,000	\$3,270,000	\$155,000

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

The School District's overall legal debt margin was \$5,568,930 with an unvoted debt margin of \$96,057 at June 30, 2005.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 12 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2005, are as follows:

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$155,000	\$203,460	\$358,460
2007	175,000	194,132	369,132
2008	190,000	183,635	373,635
2009	215,000	170,546	385,546
2010	240,000	154,508	394,508
2011-2015	1,510,000	491,174	2,001,174
2016-2017	785,000	49,047	834,047
<u>Total</u>	<u>\$3,270,000</u>	<u>\$1,446,502</u>	<u>\$4,716,502</u>

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

A. Southwest Ohio Computer Association

The School District is a participant in the Southwest Ohio Computer Association (SWOCA) which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The School District paid SWOCA \$29,526 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA, at 3607 Hamilton-Middletown Road, Hamilton, Ohio 45011.

B. Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS (continued)

Payments to SOEPC are made from the General Fund. During fiscal year 2005, the School District paid \$3,131 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive Suite 208, Vandalia, Ohio 45377.

C. Southwestern Ohio Instructional Technology Association

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a State or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2005, the School District paid \$845 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

NOTE 14 - INSURANCE PURCHASING POOLS

A. Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 14 - INSURANCE PURCHASING POOLS (continued)

B. Ohio School Plan

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

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

NOTE 15 - SHARED RISK POOL

Preble County Consortium

The Preble County Consortium (the "Consortium"), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center for the purpose of achieving lower rates for medical insurance. The Consortium is governed by an advisory committee consisting of each member's superintendent or designee from each participating school district. Premiums are paid on a monthly basis to the Consortium and their designated insurance company. The Consortium is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Consortium may assess additional charges to all participants. The Preble County School Educational Service Center serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

NOTE 16 - SET-ASIDE CALCULATIONS

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

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 16 - SET-ASIDE CALCULATIONS (continued)

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

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance June 30, 2004	(\$39,019)	\$0
Current Year Set-aside Requirement	144,337	144,337
Qualifying Disbursements	(165,828)	(165,230)
Current Year Offsets	<u>0</u>	<u>(42,899)</u>
Totals	<u>(\$60,510)</u>	<u>(\$63,792)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$60,510)</u>	<u>\$0</u>
Set-aside Reserve Balance June 30, 2005	<u>\$0</u>	<u>\$0</u>

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

NOTE 17 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

Twin Valley Community Local School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 17 – CONTINGENCIES (continued)

B. Litigation

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

NOTE 18 – COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

The School District's deposits exceeded legal security (FDIC and pledged collateral) several times during the audit period by up to \$331,555.

NOTE 19 – SUBSEQUENT EVENT

On November 8, 2005, the School District passed a 2.7 mill renewal levy for emergency requirements and a 9 mill renewal levy for current expenses.

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$ 25,903		\$ 25,903
National School Breakfast Program	05PU-2005	10.553	\$ 3,201	-	\$ 3,201	-
	05PU-2004		11,591	-	11,591	-
Total National School Breakfast Program			14,792	-	14,792	-
National School Lunch Program	LLP4-2005	10.555	77,247	-	77,247	-
	LLP4-2004		24,989	-	24,989	-
Total National School Lunch Program			102,236	-	102,236	-
Total Nutrition Cluster			117,028	25,903	117,028	25,903
<i>Total Passed Through Ohio Department of Education</i>						
			117,028	25,903	117,028	25,903
<i>Total U.S. Department of Agriculture</i>						
			117,028	25,903	117,028	25,903
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)						
	C1S1-2005	84.010	151,980	-	151,980	-
	C1S1-2004		447	-	13,651	-
Total Grants to Local Educational Agencies (ESEA Title I)			152,427	-	165,631	-
Special Education Cluster:						
Special Education: Grants to States (IDEA Part B)	6BSF-2005-P	84.027	202,398	-	202,398	-
Total Special Education: Grants to States (IDEA Part B)			202,398	-	202,398	-
Special Education: Preschool Grant	PGS1-2005-P	84.173	2,313	-	2,313	-
Total Special Education Cluster			204,711	-	204,711	-
Safe and Drug Free Schools and Communities	DRS1-2005	84.186	5,085	-	5,085	-
Innovative Education Program Strategy	C2S1-2005	84.298	4,293	-	4,293	-
Title II-D: Technology Literacy Challenge Fund	TJS1-2005	84.318	6,482	-	3,936	-
	TJS1-2004		(1,086)	-	3,957	-
Total Title II-D: Technology Literacy Challenge Fund			5,396	-	7,893	-
Title II-A: Improving Teacher Quality	TRS1-2005	84.367	53,423	-	53,423	-
<i>Total Passed Through Ohio Department of Education</i>						
			425,335	-	441,036	-
<i>Total U.S. Department of Education</i>						
			425,335	-	441,036	-
U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT ASSISTANCE						
<i>Passed Through Ohio Department of Public Safety:</i>						
Public Assistance Grant Program	FEMA-3198-EM-135-115D5	97.036	2,711	-	2,711	-
<i>Total Passed Through Ohio Department of Public Safety</i>						
			2,711	-	2,711	-
<i>Total U.S. Department of Federal Emergency Management Assistance</i>						
			2,711	-	2,711	-
Total			\$ 545,074	\$ 25,903	\$ 560,775	\$ 25,903

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

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

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - MATCHING REQUIREMENTS

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

NOTE D – NEGATIVE RECEIPTS

Each project completed approved activities within the time frames allotted by the Ohio Department of Education (ODE). At the conclusion of the grant period, the School District requested that unexpended funds be transferred to the following grant period.



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Twin Valley Community Local School District, Preble County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 1, 2006, in which we noted the School District prepares its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 and 2005-002. In a separate letter to the School District's management dated March 1, 2006, we reported another matter related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

March 1, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

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

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

In our opinion, Twin Valley Community Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

March 1, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

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)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: Title VI-B IDEA: CFDA #84.027 Preschool Grants: CFDA #84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2005-001

Material Noncompliance

Ohio Admin. Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosure that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District, as such, we recommend the School District prepares its annual financial report in accordance with generally accepted accounting principles.

FINDING NUMBER 2005-002

Reportable Condition / Material Noncompliance

Ohio Rev. Code, Section 135.18, requires that the treasurer of a political subdivision must require a depository to provide as security an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance (FDIC), surety company bonds, or pledged securities.

The School District's deposits were not adequately covered by collateral at all times during the audit period. During the audit period deposits exceeded legal security (FDIC and pledged collateral) by up to \$331,555. Failure to adequately collateralize deposits can result in loss of funds. The School District should implement procedures to verify that depository balances are adequately secured by eligible collateral at all times.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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TWIN VALLEY COMMUNITY LOCAL SCHOOL DISTRICT

PREBLE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 28, 2006**