

THREE RIVERS LOCAL SCHOOL DISTRICT

June 30, 2004

*FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS'REPORT*



**Auditor of State
Betty Montgomery**

Board of Trustees
Three Rivers Local School District
92 Cleves Avenue
Cleves, Ohio 45002

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

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 13, 2006

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CLEVES, OHIO
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INDEPENDENT AUDITORS' REPORT

Board of Education
Three Rivers Local School District
Cleves, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Three Rivers Local School District (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Three Rivers Local School District as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2005, on our consideration of the Three Rivers Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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 and should be read in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison for the general fund are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Three Rivers Local School District

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

VonLehman & Company Inc.

Cincinnati, Ohio
December 5, 2005

**THREE RIVERS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(UNAUDITED)**

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets increased \$95,201 which represents a 1.7% increase from 2003.
- General revenues accounted for \$18,189,153 in revenue or 90.8% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,836,973, or 9.2% of total revenues of \$20,026,486.
- Total assets of governmental activities decreased by \$164,871 as taxes receivable increased by \$779,906 while cash and other receivables decreased by \$754,774.
- The District had \$19,931,285 in expenses related to governmental activities; \$1,836,973 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$18,189,513 were also used to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management discussion and analysis (this section), the basic financial statements and required supplementary information. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide a more detailed look at financial activities.

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

Government-Wide Financial Statements

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

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the government-wide financial statements, the District consists of one activity:

- **Governmental Activities** - Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

Fund Financial Statements

The analysis of the District's major fund is presented in the fund financial statements (see Table of Contents). Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant fund.

The District has two kinds of funds:

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

Fiduciary Funds - The District's fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

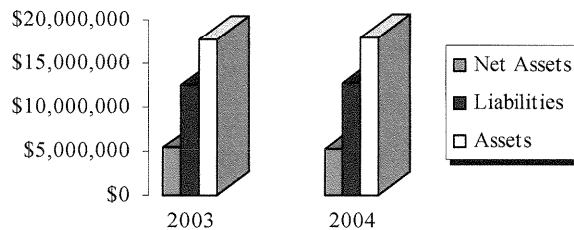
The District as a Whole

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

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

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2003 Restated</u>	<u>2004</u>
Assets		
Current and Other Assets	\$14,122,921	\$14,152,946
Capital Assets	<u>3,821,835</u>	<u>3,626,939</u>
Total Assets	<u>17,944,756</u>	<u>17,779,885</u>
Liabilities		
Long-Term Liabilities	1,446,956	1,590,021
Other Liabilities	<u>11,017,581</u>	<u>10,614,444</u>
Total Liabilities	<u>12,464,537</u>	<u>12,204,465</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	3,672,148	3,348,148
Restricted	68,634	406,382
Unrestricted	<u>1,739,437</u>	<u>1,820,890</u>
Total Net Assets	<u>\$ 5,480,219</u>	<u>\$ 5,575,420</u>



Over time, assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$5,575,420.

At year end, capital assets represented 20% of total assets. Capital assets include land, buildings and improvements, vehicles, and equipment and furniture. Capital assets, net of related debt to acquire the assets at June 30, 2004, was \$3,348,148. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The balance of unrestricted net assets of \$1,820,890 may be used to meet the District's ongoing obligations to the students and creditors.

Table 2 shows the change in net assets for fiscal year 2003 compared to 2004.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2003 Restated</u>	<u>2004</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 684,348	\$ 684,557
Operating Grants	756,118	1,135,636
Capital Grants	-	16,780
General Revenue:		
Property Taxes	10,048,628	12,072,527
Grants and Entitlements	5,584,581	5,470,632
Other	<u>313,649</u>	<u>646,354</u>
Total Revenues	<u>17,387,324</u>	<u>20,026,486</u>
Program Expenses:		
Instruction	10,479,186	11,089,082
Support Services:		
Pupil and Instructional Staff	1,712,988	1,782,450
General and School Administrative, Fiscal and Business	2,531,352	2,690,324
Operations and Maintenance	1,526,157	1,553,455
Pupil Transportation	1,114,152	1,138,956
Central	126,838	238,814
Operation of Non-Instructional Services	614,474	736,404
Extracurricular Activities	357,782	691,676
Interest and Fiscal Charges	<u>9,631</u>	<u>10,124</u>
Total Expenses	<u>18,472,560</u>	<u>19,931,285</u>
Change in Net Assets	(1,085,236)	95,201
Beginning Net Assets	<u>6,565,455</u>	<u>5,480,219</u>
Ending Net Assets	<u>\$ 5,480,219</u>	<u>\$ 5,575,420</u>

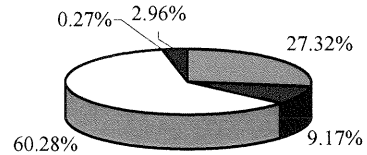
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes, and grants and entitlements comprised 87.6% of the District's revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners), the effective tax rate would become .5 mills and the owner would still pay \$35.

Thus, Ohio districts do not receive additional property tax revenue from increases in appraisal values and must regularly return to the voters to maintain a constant level of service. Property taxes made up 60.3% of revenue for governmental activities for the District in fiscal year 2004.

<u>Revenue Sources</u>	<u>2004</u>	<u>Percent of Total</u>
General Grants	\$5,470,632	27.32%
Program Revenues	1,836,973	9.17%
General Tax Revenues	12,072,527	60.28%
Investment Earnings	54,562	0.27%
Other Revenues	591,792	2.96%
	<u>\$20,026,486</u>	<u>100.00%</u>



Instruction comprises 55.6% of governmental program expenses. Support services expenses were 37.1% of governmental program expenses. All other program expenses were 7.3%.

The District had a minimal decrease in the amount of grant and entitlement monies it received compared to 2003. The District did see an increase in the amount of taxes revenue it received which occurred, in part, due to the amounts available for advance increasing by \$1,037,600, when compared to the prior year. Instruction had an increase from the prior year due mainly to a large increase in the amount of wages the District accrued (accrued wages and benefits) when compared to 2003.

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

Table 3
Governmental Activities

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2003 Restated</u>	<u>2004</u>	<u>2003 Restated</u>	<u>2004</u>
Instruction	\$10,479,186	\$11,089,082	\$(9,981,141)	\$(10,498,741)
Support Services:				
Pupil and Instructional Staff	1,712,988	1,782,450	(1,549,682)	(1,368,814)
Board, Administration, Fiscal and Business	2,531,352	2,690,324	(2,531,352)	(2,690,324)
Operations and Maintenance	1,526,157	1,553,455	(1,526,157)	(1,548,455)
Pupil Transportation	1,114,152	1,138,956	(1,114,152)	(1,122,176)
Central	126,838	238,814	(85,897)	(231,002)
Operation of Non-Instructional Services	614,474	736,404	12,904	(54,589)
Extracurricular Activities	357,782	691,676	(246,986)	(570,087)
Interest and Fiscal Charges	9,631	10,124	(9,631)	(10,124)
Total Expenses	<u>\$18,472,560</u>	<u>\$19,931,285</u>	<u>\$(17,032,094)</u>	<u>\$(18,094,312)</u>

The District's Funds

The District has one major governmental fund: the general fund. Assets of the general fund comprised \$13,705,919 (96.4%) of the total \$14,219,116 governmental funds assets.

General Fund: Fund balance at June 30, 2004 was \$2,833,457, a decrease of \$80,039 from 2003. The primary reasons for the decrease in fund balance were decreases in intergovernmental revenue due to less grant monies the District received and increases in expenditures for support services, most notably school administration. The school administration increase relates to a large increase in the amount of wages the District accrued (accrued wages and benefits) when compared to 2003.

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget when needed. However, none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with changes in revenues and expenditures.

For the general fund, budget basis revenue was \$16,740,643, compared to original budget estimates of \$18,433,746. Of the \$1,693,103 difference, most was due to a difference in estimates for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$8,851 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At fiscal year end, the District had \$3,626,939 invested in land, buildings and improvements, vehicles, and equipment and furniture. Table 4 shows fiscal 2003 balances compared to fiscal 2004:

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

	Governmental Activities	
	2003 Restated	2004
Land	\$ 267,092	\$ 267,092
Buildings and Improvements	2,131,337	1,968,163
Vehicles	679,337	528,425
Equipment and Furniture	<u>744,069</u>	<u>863,259</u>
Total Net Capital Assets	<u>\$3,821,835</u>	<u>\$3,626,939</u>

The decrease in capital assets is due to increases in accumulated depreciation being greater than the amount of capital assets additions for the year.

See the notes to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2004, the District had \$278,791 in bonds and capital leases payable outstanding, \$137,022 due within one year. Table 5 summarizes bonds and capital leases outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental Activities 2003	Governmental Activities 2004
Energy Conservation Bonds Payable	\$149,687	\$ 92,198
Fitness Equipment Capital Lease	-	<u>186,593</u>
	<u>\$149,687</u>	<u>\$278,791</u>

See the notes to the basic financial statements for further details on the District's long-term obligations.

For the Future

The Ohio Supreme Court found the state of Ohio in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the state has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the state had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not "equitable" nor "adequate". The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001, the Ohio legislature crafted a school-funding program to address the Court's concerns. In 2003, the funding program was modified as a result of Amended Substitute House Bill 95.

A challenge facing the District is the future of state funds. On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including a change in the school districts that are used as the basis for determining the base cost support amount and fully funding parity aid no later than the beginning of fiscal year 2004. The state of Ohio asked the Court to reconsider and clarify parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. The Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator.

The mediator issued his final report indicating that the conference was unable to produce a settlement so the case was reconsidered by the Court. On December 1, 2002, the Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The District is currently unable to determine what effect, if any, this decision will have on its future state funding and on its financial operations.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John Wilkinson, Treasurer at Three Rivers Local School District, 92 Cleves Avenue, Cleves, Ohio 45002 or e-mail at jjwilkinson@three-rivers.org.

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004**

		<u>Governmental Activities</u>
Assets		
Equity in Pooled Cash and Investments	\$	2,253,427
Restricted Cash and Investments		356,416
Receivables		
Taxes		11,459,821
Intergovernmental		68,025
Inventory		15,257
Nondepreciable Capital Assets		267,092
Depreciable Capital Assets, Net		<u>3,359,847</u>
Total Assets		<u>17,779,885</u>
Liabilities		
Accounts Payable		67,193
Accrued Wages and Benefits		1,853,637
Unearned Revenue		8,693,614
Long-Term Liabilities		
Due Within One Year		352,502
Due In More Than One Year		<u>1,237,519</u>
Total Liabilities		<u>12,204,465</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt		3,348,148
Restricted for:		
Special Revenue		49,881
Debt Service		22
Capital Projects		63
Set-Aside		356,416
Unrestricted		<u>1,820,890</u>
Total Net Assets	\$	<u><u>5,575,420</u></u>

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
					<u>Governmental Activities</u>
Governmental Activities					
Instruction					
Regular	\$ 8,734,756	\$ 81,117	\$ 124,100	\$ -	\$ (8,529,539)
Special	2,347,652	-	342,482	-	(2,005,170)
Vocational	6,244	-	6,105	-	(139)
Other	430	-	36,537	-	36,107
Support Services					
Pupil	899,700	-	-	-	(899,700)
Instructional Staff	882,750	-	413,636	-	(469,114)
General Administration	86,920	-	-	-	(86,920)
School Administration	1,983,363	-	-	-	(1,983,363)
Fiscal	501,819	-	-	-	(501,819)
Business	118,222	-	-	-	(118,222)
Operations and Maintenance	1,553,455	5,000	-	-	(1,548,455)
Pupil Transportation	1,138,956	-	-	16,780	(1,122,176)
Central	238,814	-	7,812	-	(231,002)
Operation of Non-Instructional Services	736,404	476,851	204,964	-	(54,589)
Extracurricular Activities	691,676	121,589	-	-	(570,087)
Interest and Fiscal Charges	10,124	-	-	-	(10,124)
Total Governmental Activities	\$ 19,931,285	\$ 684,557	\$ 1,135,636	\$ 16,780	(18,094,312)

Property Taxes Levied for General Purposes	12,072,527
Grants and Entitlements not Restricted to Specific Programs	5,470,632
Payment in Lieu of Taxes	393,811
Unrestricted Contributions	31,000
Investment Earnings	54,562
Other Revenues	166,981
Total General Revenues and Transfers	18,189,513
Change in Net Assets	95,201
Net Assets Beginning of Year, Restated	5,480,219
Net Assets End of Year	<u>\$ 5,575,420</u>

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004**

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Investments	\$ 1,951,393	\$ 302,034	\$ 2,253,427
Restricted Cash and Investments	356,416	-	356,416
Receivables			
Taxes	11,395,720	64,101	11,459,821
Intergovernmental	-	68,025	68,025
Interfund	2,390	63,780	66,170
Inventory	-	15,257	15,257
Total Assets	\$ 13,705,919	\$ 513,197	\$ 14,219,116
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 62,827	\$ 4,366	\$ 67,193
Accrued Wages and Benefits	1,570,723	164,017	1,734,740
Compensated Absences	71,797	40,911	112,708
Interfund Payable	63,780	2,390	66,170
Deferred Revenue	9,103,335	132,126	9,235,461
Total Liabilities	10,872,462	343,810	11,216,272
Fund Balances			
Reserved for Encumbrances	654,454	10,333	664,787
Reserved for Inventory	-	15,257	15,257
Reserved for Property Tax Advances	2,292,385	-	2,292,385
Reserved for Set-Aside	356,416	-	356,416
Unreserved, Undesignated, Reported in:			
General Fund	(469,798)	-	(469,798)
Special Revenue Funds	-	143,712	143,712
Debt Service Funds	-	22	22
Capital Projects Funds	-	63	63
Total Fund Balances	2,833,457	169,387	3,002,844
Total Liabilities and Fund Balances	\$ 13,705,919	\$ 513,197	\$ 14,219,116

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004**

Total Governmental Fund Balance		\$	3,002,844
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			3,626,939
Other Long-Term Assets are not Available to Pay for Current Period Expenditures and, Therefore, are Deferred in the Funds			
Delinquent Property Taxes	473,822		
Intergovernmental	<u>68,025</u>		
			541,847
Some Liabilities Reported in the Statement of Net Assets do not Require the Use of Current Financial Resources and, Therefore, are not Reported as Liabilities in Governmental Funds			
Pension Obligation	(118,897)		
Compensated Absences	<u>(1,198,522)</u>		
			(1,317,419)
Long-Term Liabilities are not Due and Payable in the Current Period and, Therefore, are not Reported in the Funds			<u>(278,791)</u>
Net Assets of Governmental Activities		\$	<u><u>5,575,420</u></u>

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 11,624,223	\$ 64,150	\$ 11,688,373
Revenue in Lieu of Taxes	393,811	-	393,811
Tuition and Fees	80,798	7,097	87,895
Investment Earnings	53,764	798	54,562
Intergovernmental	5,523,949	1,013,292	6,537,241
Extracurricular Activities	-	114,492	114,492
Charges for Services	-	476,851	476,851
Other Revenues	104,249	103,289	207,538
	<u>17,780,794</u>	<u>1,779,969</u>	<u>19,560,763</u>
Total Revenues			
Expenditures			
Current			
Instruction:			
Regular	8,489,855	161,617	8,651,472
Special	1,878,047	437,712	2,315,759
Vocational	-	6,244	6,244
Support Services:			
Pupil	830,401	38,049	868,450
Instructional Staff	651,406	234,590	885,996
General Administration	85,199	-	85,199
School Administration	1,951,697	-	1,951,697
Fiscal	492,249	-	492,249
Business	115,857	-	115,857
Operations and Maintenance	1,526,874	251	1,527,125
Pupil Transportation	1,113,200	-	1,113,200
Central	234,257	817	235,074
Operation of Non-Instructional Services	28,688	731,207	759,895
Extracurricular Activities	533,304	146,008	679,312
Capital Outlay	35,857	35,801	71,658
Debt Service:			
Principal Retirement	35,347	57,489	92,836
Interest and Fiscal Charges	3,475	6,649	10,124
	<u>18,005,713</u>	<u>1,856,434</u>	<u>19,862,147</u>
Total Expenditures			
Excess of Revenues Under Expenditures	<u>(224,919)</u>	<u>(76,465)</u>	<u>(301,384)</u>
Other Financing Sources (Uses)			
Proceeds of Capital Leases	221,940	-	221,940
Proceeds from Sale of Capital Assets	13,543	-	13,543
Transfers In	-	99,550	99,550
Transfers (Out)	(90,603)	(8,947)	(99,550)
	<u>144,880</u>	<u>90,603</u>	<u>235,483</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balance	(80,039)	14,138	(65,901)
Fund Balance - Beginning of Year	<u>2,913,496</u>	<u>155,249</u>	<u>3,068,745</u>
Fund Balance - End of Year	<u>\$ 2,833,457</u>	<u>\$ 169,387</u>	<u>\$ 3,002,844</u>

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balance - Total Governmental Funds \$ (65,901)

Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:

Governmental Funds Report Capital Asset Additions as Expenditures.
However, in the Statement of Activities, the Cost of Those Assets is
Allocated Over Their Estimated Useful Lives as Depreciation
Expense. This is the Amount of the Difference Between Capital
Asset Additions and Depreciation in the Current Period

Capital Assets Used in Governmental Activities	342,850	
Depreciation Expense	<u>(537,746)</u>	(194,896)

Revenues in the Statement of Activities That do not Provide
Current Financial Resources are not Reported as Revenues in
the Funds

Delinquent Property Taxes	384,155	
Intergovernmental	<u>68,025</u>	452,180

Repayment of Bond and Capital Lease Principal is an Expenditure in the Governmental Funds, but the Repayment Reduces Long-Term Liabilities in the Statement of Net Assets		92,836
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Some Expenses Reported in the Statement of Activities do not Require the
Use of Current Financial Resources and, Therefore, are not Reported as
Expenditures in Governmental Funds

Pension Obligation	(65,825)	
Compensated Absences	<u>98,747</u>	32,922

Proceeds from Debt Issues are an Other Financing Source in the Funds, but a Debt Issue Increases Long-Term Liabilities in the Statement of Net Assets		(221,940)
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Change in Net Assets of Governmental Activities		\$ <u><u>95,201</u></u>
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See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues				
Taxes	\$ 9,845,697	\$ 10,586,623	\$ 10,586,623	\$ -
Tuition and Fees	80,860	86,980	86,945	(35)
Investment Earnings	52,892	55,641	56,872	1,231
Intergovernmental	5,137,345	5,523,949	5,523,950	1
Other Revenues	453,428	487,450	487,550	100
Total Revenues	<u>15,570,222</u>	<u>16,740,643</u>	<u>16,741,940</u>	<u>1,297</u>
Expenditures				
Current				
Instruction:				
Regular	8,575,298	8,745,406	8,744,034	1,372
Special	1,893,175	1,930,427	1,930,427	-
Other	29	30	30	-
Support Services:				
Pupil	791,913	807,605	807,495	110
Instructional Staff	590,082	601,693	601,693	-
General Administration	93,293	95,129	95,129	-
School Administration	1,850,369	1,888,525	1,886,779	1,746
Fiscal	479,387	488,871	488,820	51
Business	113,372	115,603	115,603	-
Operations and Maintenance	1,499,949	1,531,313	1,529,463	1,850
Pupil Transportation	1,003,647	1,025,821	1,023,396	2,425
Central	572,448	583,712	583,712	-
Operation of Non-Instructional Services	28,478	29,038	29,038	-
Extracurricular Activities	305,380	311,389	311,389	-
Capital Outlay	42,399	43,233	43,233	-
Debt Service:				
Principal Retirement	35,347	35,347	35,347	-
Interest and Fiscal Charges	2,726	3,475	3,475	-
Total Expenditures	<u>17,877,292</u>	<u>18,236,617</u>	<u>18,229,063</u>	<u>7,554</u>
Excess of Revenues Under Expenditures	<u>(2,307,070)</u>	<u>(1,495,974)</u>	<u>(1,487,123)</u>	<u>8,851</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	12,595	13,543	13,543	-
Advances In	60,492	65,044	65,044	-
Transfers In	930	1,000	1,000	-
Transfers (Out)	(88,855)	(90,603)	(90,603)	-
Total Other Financing Sources (Uses)	<u>(14,838)</u>	<u>(11,016)</u>	<u>(11,016)</u>	<u>-</u>
Net Change in Fund Balance	<u>(2,321,908)</u>	<u>(1,506,990)</u>	<u>(1,498,139)</u>	<u>8,851</u>
Fund Balance - Beginning of Year (Includes Prior Year Encumbrances Appropriated)	<u>3,134,909</u>	<u>3,134,909</u>	<u>3,134,909</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 813,001</u>	<u>\$ 1,627,919</u>	<u>\$ 1,636,770</u>	<u>\$ 8,851</u>

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2004**

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Investments	\$ <u>83,458</u>	\$ <u>21,941</u>
Total Assets	<u>83,458</u>	<u>\$ 21,941</u>
Liabilities		
Other Liabilities	<u>-</u>	\$ <u>21,941</u>
Total Liabilities	<u>-</u>	<u>\$ 21,941</u>
Net Assets Held in Trust	<u>83,458</u>	
Total Net Assets	<u>\$ 83,458</u>	

See accompanying notes.

THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Private Purpose Trust
Additions	
Donations	\$ 15,354
Investment Earnings	871
Total Additions	16,225
Deductions	
Community Gifts, Awards and Scholarships	14,780
Total Deductions	14,780
Change in Net Assets	1,445
Net Assets - Beginning of Year	82,013
Net Assets - End of Year	\$ 83,458

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE DISTRICT

The Three Rivers Local School District, Ohio (the "District") was originally chartered by the Ohio State Legislature. In 1853, state laws were enacted to create local Boards of Education. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code. The District operates under a locally elected five-member Board of Education (the Board) and is responsible for the education of the residents of the District. This Board controls the District's instructional and support facilities staffed by 86 noncertificated personnel and 140 certified teaching and administrative personnel to provide services to students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. The District has no component units.

Measurement Focus

Government-Wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the Statement of Net Assets. Fiduciary funds are not included in entity-wide statements.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

Fiduciary funds are reported using the economic resources measurement focus.

Fund Accounting

The 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 District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

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

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

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 District under a trust agreement for individuals, private organizations or other governments and are, therefore, not available to support the District's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has one agency fund. The agency fund (student activities) is used to account for assets and liabilities generated by student managed activities. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Basis of Accounting**

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

Revenues - Exchange and Non-Exchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

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

Equity in Pooled Cash and Investments

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposits and repurchase agreements are reported at cost.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2004 credited to the general fund amounted to \$53,764.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of food held for resale and consumable supplies.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The District defines capital assets as those with an individual cost of more than \$1,000 and an estimated useful life in excess of three years. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

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

Buildings	50 Years
Land Improvements	20 Years
Building Improvements	20 - 30 Years
Equipment and Furniture Other Than Vehicles	5-20 Years
Vehicles	8 Years

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Interfund Activity**

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

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide Statement of Activities.

Interfund Balances

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

Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only for the compensated absences only if they have matured, for example, as a result of employee resignations and retirements.

Fund Balance Reserves

The District records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balances indicate that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property taxes, supplies inventory and budget reserve set-asides.

The reserve for property taxes represents taxes recognized as revenue under U.S. generally accepted accounting principles but not available for appropriations under state statutes. The reserve for budget stabilization represents money set aside to protect against cyclical changes in revenues and expenditures.

Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. A corresponding fund balance reserve has also been established.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

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

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

Estimates

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

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

The following funds had a deficit in fund balance:

Special Revenue Funds:	
DPIA	\$ 8,492
Title I	51,116
Drug Free Schools	1,588
Classroom Size Reduction	2,102

The deficit in fund balance was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are permitted to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the state of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian. The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits - At year end, the carrying amount of the District's deposits was \$607,353 and the bank balance was \$693,131. Of the bank balance, \$192,500 was covered by federal depository insurance.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Investments - The District's investments are categorized to give an indication of the level of risk assumed by the entity at year end (GASB Statement 3):

- Category 1 Includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.

- Category 2 Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name.

- Category 3 Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its department or agent, but not in the District's name.

Based on the above criteria, the District's investments at year end are classified as follows:

<u>Description</u>	<u>Category 2</u>	<u>Carrying Amount/ Fair Value</u>
Money Market*	\$ -	\$ 2,840
U.S. Agencies	640,049	640,049
U.S Treasury Bonds	400,000	400,000
State Treasury Pool*	<u>-</u>	<u>1,065,000</u>
Total Investments	<u>\$1,040,049</u>	<u>\$2,107,889</u>

* The District's investments in the money market and Ohio State Treasury Pool are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

NOTE 5 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by state law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88% of true value (with certain exceptions) and on real property at 35% of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25% of true value.

NOTE 5 - PROPERTY TAXES (Continued)

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. Tangible personal property taxes paid 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. The District receives property taxes from Hamilton County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 operations. The amount available for advance can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property and public utility taxes that became measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2004 was \$2,292,385 in the general fund.

The assessed value, by property classification, upon which taxes collected in 2004 were based as follows:

Tangible and Public Utility Personal	\$106,777,320
Real Estate	<u>273,317,150</u>
Total Assessed Property Value	<u>\$380,094,470</u>

NOTE 6 - CAPITAL ASSETS

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

	Beginning Balance <u>Restated</u>	Additions	Disposals	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 267,092	\$ -	\$ -	\$ 267,092
Capital Assets, Being Depreciated:				
Buildings and Improvements	8,845,627	14,311	-	8,859,938
Vehicles	1,552,253	-	-	1,552,253
Equipment and Furniture	<u>1,673,986</u>	<u>328,539</u>	-	<u>2,002,525</u>
Totals at Historical Cost	<u>12,338,958</u>	<u>342,850</u>	-	<u>12,681,808</u>
Less Accumulated Depreciation:				
Buildings and Improvements	6,714,290	177,485	-	6,891,775
Vehicles	872,916	150,912	-	1,023,828
Equipment and Furniture	<u>929,917</u>	<u>209,349</u>	-	<u>1,139,266</u>
Total Accumulated Depreciation	<u>8,517,123</u>	<u>537,746</u>	-	<u>9,054,869</u>
Total Governmental Activity Capital Assets, Net	<u>\$ 3,821,835</u>	<u>\$(194,896)</u>	<u>\$ -</u>	<u>\$ 3,626,939</u>

NOTE 6 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$232,628
Special	63,078
Other Instruction	430
Support Services:	
Pupil	31,781
Instructional Staff	22,962
General Administration	1,721
School Administration	49,688
Fiscal	13,336
Business	3,280
Operation and Maintenance	42,536
Pupil Transportation	34,577
Central	3,818
Operation of Non-Instructional Services	23,069
Extracurricular Activities	<u>14,842</u>
Total Depreciation Expense	<u>\$537,746</u>

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, commercial insurance carriers provided insurance coverage for property, liability and vehicles. There has been no significant reduction in the coverage in the current fiscal year and settlements have not exceeded insurance coverage in any of the past three fiscal years.

The District also provides life insurance and accidental death and dismemberment coverage to all employees. The amount of coverage per employee varies by bargaining unit. Commercial Life also provides the life insurance coverage for the District. The District pays the State Workers' Compensation System a premium based on a rate per \$1,000 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 8 - PENSION PLANS

School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the SERS, 300 East Broad, Columbus, Ohio 43215.

NOTE 8 - PENSION PLANS (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate, which is currently 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS Retirement Board. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$337,572, \$390,654 and \$339,512, respectively; 52.8% has been contributed for 2004 and 100% for fiscal years 2003 and 2002.

State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the STRS, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have the choice of three retirement plans: a Defined Benefit Plan (DB Plan), a Defined Contribution Plan (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 members contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive retirement benefits at age 50 and termination of employment. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by members, 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 DB 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 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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the years ended June 30, 2004, 2003 and 2002 were \$176,885, \$162,780 and \$136,300, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. The District's liability is 6.2% of wages paid.

NOTE 9 - POST EMPLOYMENT BENEFITS

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

STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2004, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the District, this amount was approximately \$12,635 during fiscal year 2004. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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

For 2004 fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal year, the minimum pay has been established at \$25,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. For the District, this amount equaled \$118,391 during the 2004 fiscal year. The number of participants currently receiving health care benefits is approximately 62,000. For the fiscal year ended June 30, 2004, net health care costs paid by SERS were \$223,443,805.

NOTE 10 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Non-certified employees earn 5 to 25 days of vacation per fiscal year, depending upon length of service while administrators receive 20 days of vacation per year. Accumulated, unused vacation time is paid to non-certified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators and non-certified employees earn sick leave at the rate of 1 1/4 days per month. Sick leave may be accumulated up to a maximum of 260 days for administrators and 188 days for teachers and classified staff. Upon retirement, payment is made for 25% of the employee's accumulated sick leave.

NOTE 11 - LONG-TERM LIABILITIES

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

	Principal Outstanding 7/1/03	Additions	Reductions	Principal Outstanding 6/30/04	Amounts Due in One Year
Governmental Activities:					
Energy Conservation Note	\$ 149,687	\$ -	\$ 57,489)	\$ 92,198	\$ 64,102
Capital Lease	<u>-</u>	<u>221,940</u>	<u>(35,347)</u>	<u>186,593</u>	<u>72,920</u>
Total Long-Term Debt	149,687	221,940	(92,836)	278,791	137,022
Compensated Absences	<u>1,297,269</u>	<u>45,276</u>	<u>(31,315)</u>	<u>1,311,230</u>	<u>215,480</u>
Total	<u>\$1,446,956</u>	<u>\$267,216</u>	<u>\$(124,151)</u>	<u>\$1,590,021</u>	<u>\$352,502</u>

The Energy Conservation Note was issued on August 16, 1995 bearing an interest rate of 5.35%. It matures on December 31, 2005. The following is a summary of the future annual debt service requirements to maturity for the note:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2005	\$3,460	\$60,642
2006	<u>494</u>	<u>31,556</u>
Total	<u>\$3,954</u>	<u>\$92,198</u>

All general obligation debt is supported by the full faith and credit of the District. Compensated absences and pension obligation will be paid from the fund from which the employees' salaries are paid.

NOTE 12 - CAPITAL LEASES

During the fiscal year, the District has entered into a capital lease for exercise and fitness equipment.

The lease for the exercise and fitness equipment meets the criteria of capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. Capital lease payments for the exercise and fitness equipment will be made from the general fund. Depreciation held under capital lease was \$22,194 for fiscal year 2004.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of fiscal year end.

<u>Fiscal Year Ending June 30,</u>	<u>Long-Term Debt</u>
2005	\$ 77,643
2006	77,643
2007	<u>38,822</u>
Total Minimum Lease Payments	194,108
Less Amount Representing Interest	<u>(7,515)</u>
Present Value of Minimum Lease Payments	<u>\$186,593</u>

NOTE 12 - CAPITAL LEASES (Continued)

Capital assets acquired under a capital lease in accordance with Statement of Financial Accounting Standards No. 13 are as follows:

Equipment	\$221,940
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NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS**Hamilton/Clermont Cooperative Association**

The Hamilton Clermont County Cooperative Association (HCCA) is a jointly governed organization consisting of 24 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and institutional functions among districts. Each of the Districts supports HCCA and shares in a percentage of equity based on the resources provided. HCCA is governed by the Board of Directors consisting of superintendents of the member school Boards. The degree of control exercised by any participating district is limited to its representation on the Board. The operating budget of HCCA is funded by state funds and by contributions from each member district based upon a per pupil fee. The District's share of financial operations for June 30th was 3.1%.

The individual HCCA members are not considered participants having an equity interest as defined by GASB Statement 14 since members have no right to any assets of HCCA. Separate financial statements for HCCA can be obtained from the HCCA administrative offices at 7615 Harrison Avenue, Cincinnati, Ohio 45247.

Great Oaks Institute of Technology and Career Development

The Great Oaks Institute of Technology and Career Development (Great Oaks), a jointly governed organization, is a distinct political subdivision of the state of Ohio which operates under the direction of a Board consisting of one representative from each participating school district's elected Board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established under the Ohio Revised Code. Great Oaks was formed for the purpose of providing vocational education opportunities to the students of member districts, which includes the students of the District. The District has no ongoing financial interest in or responsibility for Great Oaks. To obtain financial information, write to Great Oaks, 3254 East Kemper Road, Cincinnati, Ohio 45241.

NOTE 14 - CONTINGENCIES**Grants**

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

Litigation

The District is party to legal proceedings. The District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the District.

NOTE 15 - REQUIRED SET-ASIDES

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-Aside Balance as of June 30, 2003	\$(90,396)	\$ -	\$182,210
Current Year Set-Aside Requirement	287,632	287,632	-
Less Qualifying Disbursements	<u>(289,749)</u>	<u>(113,426)</u>	<u>-</u>
Total	<u>(92,513)</u>	<u>174,206</u>	<u>182,210</u>
Restricted Cash Balance as of June 30, 2004	<u>-</u>	<u>174,206</u>	<u>182,210</u>
Balance Carried to Fiscal Year 2005	<u>\$(92,513)</u>	<u>\$174,206</u>	<u>\$182,210</u>

Since the District had offsets and qualifying disbursements during the year that reduced the set-aside amount for textbooks and instructional materials to below zero, these extra amounts will be used to reduce the set-aside requirements of future years. However, the excess qualifying disbursements of the capital improvement set-aside may not be used to reduce the capital improvement set-aside requirements of future years.

The Ohio General Assembly eliminated the requirement for the budget stabilization reserve and, effective April 10, 2001, the Board of Education could choose to eliminate the reserve with the exception of rebates received from the Bureau of Workers' Compensation. The District chose not to reduce its budget stabilization reserve.

NOTE 16 - INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2004 consisted of the following individual fund receivables and payables.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,390	\$63,780	\$ -	\$90,603
Other Governmental Funds	<u>63,780</u>	<u>2,390</u>	<u>99,550</u>	<u>8,947</u>
Total All Funds	<u>\$66,170</u>	<u>\$66,170</u>	<u>\$99,550</u>	<u>\$99,550</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

NOTE 17 - SCHOOL FUNDING DECISION

On December 12, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that the state's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient." The District is currently unable to determine what effect, if any, this ongoing litigation will have on its future state funding and on its operations.

NOTE 18 - PRIOR PERIOD ADJUSTMENT

The beginning net assets of governmental activities have been adjusted for capital assets (bleachers) being added to the system as follows:

	Governmental <u>Activities</u>
June 30, 2003 Net Assets, as Previously Stated	\$5,348,530
Capital Assets	<u>131,689</u>
June 30, 2003 Net Assets, as Restated	<u>\$5,480,219</u>

NOTE 19 - BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations 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 amount 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 the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the school district treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2004.

NOTE 19 - BUDGETARY PROCESS (Continued)

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to Balance Sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund:

	<u>General</u>
GAAP Basis	(\$80,039)
Net Adjustment for Revenue Accruals	(1,194,750)
Net Adjustment for Expenditure Accruals	447,688
Encumbrances	<u>(671,038)</u>
Budget Basis	<u><u>(\$1,498,139)</u></u>

OTHER INFORMATION

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004**

<u>Grant</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>			
(Passed through Ohio Department of Education)			
Nutrition Cluster:			
Food Distribution Program	10.550	\$ 34,336	\$ 30,659
School Breakfast Program	10.553	25,887	25,887
National School Lunch Program	10.555	<u>120,182</u>	<u>120,182</u>
Total U.S. Department of Agriculture		<u>180,405</u>	<u>176,728</u>
<u>U.S. Department of Education:</u>			
(Passed through Ohio Department of Education)			
Special Education Cluster:			
Title VI - B Grant	84.027	<u>297,728</u>	<u>296,750</u>
Total Special Education Cluster		297,728	296,750
Grants to Local Education Agencies (ESEA Title I)	84.010	248,331	254,884
Vocational Education	84.048	3,582	4,363
Title II	84.151	17,538	14,568
Safe and Drug Free Schools	84.186	10,713	13,436
Goals 2000	84.276	-	541
Eisenhower Grant	84.281	-	9,507
Class Size Reduction	84.340	<u>141,760</u>	<u>130,248</u>
Total U.S. Department of Education		<u>719,652</u>	<u>724,297</u>
<u>U.S. Department of Health and Human Services</u>			
(Passed through Ohio Department of Education)			
Title XIX	93.778	47,755	47,755
Title XXI	93.767	<u>3,212</u>	<u>3,212</u>
Total U.S. Department of Health and Human Services		<u>50,967</u>	<u>50,967</u>
Total Federal Awards		<u>\$ 951,024</u>	<u>\$ 951,992</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and distributed.

NOTE C - MATCHING REQUIREMENTS

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



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

Board of Education
Three Rivers Local School District
Cleves, Ohio

We have audited the basic financial statements of the Three Rivers Local School District (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 5, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated December 5, 2005.

Board of Education
Three Rivers Local School District

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

VonLehman & Company Inc.

Cincinnati, Ohio
December 5, 2005



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

Board of Education
Three Rivers Local School District
Cleves, Ohio

Compliance

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

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

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

Internal Control Over Compliance

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

Board of Education
Three Rivers Local School District

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

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

VonLehman & Company Inc.

Cincinnati, Ohio
December 5, 2005

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statements level (GAGAS)?	No
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
FEDERAL AWARDS	
Were there any material internal control weakness conditions reported for major federal programs?	No
Were there any other reportable internal control weakness conditions reported for major federal programs?	No
Type of Major Programs Compliance Opinion	Unqualified
Are there any reportable findings under Section 510?	No
Major Programs (list):	CFDA 84.027 Title VI - B Grant
Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: > all others
Low Risk Auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters to be reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters to be reported.

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004**

The prior audit disclosed no instances of noncompliance with requirements of major federal programs. In addition, no reportable conditions or material weaknesses with respect to internal controls over compliance with requirements that could have a direct and material effect on a major program were reported in the prior year.



**Auditor of State
Betty Montgomery**

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**THREE RIVERS LOCAL SCHOOL DISTRICT
HAMILTON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2006**