

THREE RIVERS LOCAL SCHOOL DISTRICT
Cleves, Ohio
Single Audit
For the Year Ended June 30, 2003
with
Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Education
Three Rivers Local School District
92 Cleves Ave.
Cleves, OH 45002

We have reviewed the Independent Auditor's Report of the Three Rivers Local School District, Hamilton County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2002 through June 30, 2003. 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.

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

BETTY MONTGOMERY
Auditor of State

April 15, 2005

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THREE RIVERS LOCAL SCHOOL DISTRICT

Cleves, Ohio

Basic Financial Statements

For the Year Ended June 30, 2003

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditors' Report

Board of Education
Three Rivers Local School District
Cleves, Ohio 45002

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Three Rivers Local School District Hamilton County, Ohio (the District) as of and for the year ended June 30, 2003, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2003, the District implemented Governmental accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Interpretation No. 6, *Recognition and Measurements of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2004 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is required supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Clark, Scharfer, Hachell & Co.

Middletown, Ohio
September 22, 2004

Three Rivers Local School District

92 Cleves Avenue • Cleves, Ohio 45002-1368

Scott C. Hiles
Treasurer

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The discussion and analysis of the Three Rivers Local School District financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the District's performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Analysis

The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only

THREE RIVERS LOCAL SCHOOL DISTRICT, OHIO
Management's Discussion and Analysis
Year Ended June 30, 2003
Unaudited

result in cash flows in future years (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the School District include instruction, support services, administration, operation and maintenance of plant, and extracurricular activities. The School District has no business-type activities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reports as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between government funds and governmental activities.

The School District accounts for its activities using many individual governmental funds. The most significant funds, known as major funds, are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. The School District's only major fund is its General Fund. Data for other governmental funds is combined into a single aggregated presentation.

Fiduciary Funds

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

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 Management's Discussion and Analysis
 Year Ended June 30, 2003
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Notes To The Basic Financial Statements

The notes provide information that is essential to a full understanding of the data provided to the government-wide and fund financial statements.

ENTITY-WIDE FINANCIAL ANALYSIS

A. Net assets at year-end

The following table presents a condensed summary of the School District's overall financial position at June 30, 2003:

	Governmental Activities
Current and other assets	\$ 14,122,921
Capital assets	<u>3,690,146</u>
Total assets	<u>17,813,067</u>
Long-term liabilities outstanding	1,446,956
Other liabilities	<u>11,017,581</u>
Total liabilities	<u>12,464,537</u>
Net Assets:	
Invested in capital assets, net of debt	3,540,459
Restricted:	
For capital purposes	26,394
For other purposes	42,240
Unrestricted	<u>1,739,437</u>
Total net assets	<u>\$ 5,348,530</u>

The largest portion of the School District's net assets (66%) reflects its investment in capital assets, less any related debt to acquire those assets that is still outstanding. The School District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The balance of unrestricted net assets (\$1,739,437) may be used to meet the government's ongoing obligations to citizens and creditors.

Since this is the first year to report all activities using the accrual basis of accounting, a comparison to the prior year is not possible. However, in future years, this section will explain the difference between the current year and prior year assets, liabilities, and changes in net assets.

THREE RIVERS LOCAL SCHOOL DISTRICT, OHIO
 Management's Discussion and Analysis
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B. Governmental activities during fiscal year 2003

The following table presents a condensed summary of the School District's activities during fiscal year 2003 and the resulting change in net assets:

	<u>Governmental Activities</u>
Revenues:	
Program revenues:	
Charges for services and sales	\$ 684,348
Operating grants and contributions	<u>756,118</u>
Total program revenues	<u>1,440,466</u>
General revenues:	
Property taxes	10,048,628
Grants and entitlements	5,584,581
Investment earnings	70,404
Miscellaneous	<u>243,245</u>
Total general revenues	<u>15,946,858</u>
Total Revenues	<u>17,387,324</u>
Expenses:	
Instruction	10,479,186
Support Staff	
Pupil	1,012,034
Instructional staff	700,954
Board of Education	57,939
Administration	1,923,955
Fiscal	440,971
Business	108,487
Operation and maintenance of plant	1,526,157
Pupil transportation	1,114,152
Central	126,838
Non-instructional services	530,917
Interest on long-term debt	9,631
Food services	<u>573,028</u>
Total Expenses	<u>18,604,249</u>
Change in net assets	<u>(1,216,925)</u>

Of the total governmental activities revenues of \$17,387,324, \$1,440,466 (8%) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, 63% (\$10,048,628) comes from property tax levies and 35% (\$5,584,581) is from state and federal funding. The School District's operations are reliant upon its property tax levies and the state's foundation program.

THREE RIVERS LOCAL SCHOOL DISTRICT, OHIO
 Management's Discussion and Analysis
 Year Ended June 30, 2003
 Unaudited

As previously mentioned, because this is the first year to report all activities using the accrual basis of accounting, a comparison to the prior year is not possible. However, in future years, this section will explain the difference between the current and prior year assets, liabilities, and changes in net assets.

GOVERNMENTAL ACTIVITIES

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 8% of the cost of the general government programs was recouped in program revenues. Instruction cost were \$10,479,186 but program revenues contributed to fund 3% of those cost. Thus, general revenues of \$9,981,141 were used to support the remainder of the instruction cost.

The School District's governmental activities net assets decreased by (\$1,104,171) due primarily to expenditures exceeding revenues. Property tax revenue for FY03 was \$1,245,000 lower than FY02 due to changes in personal property taxation and public utility deregulation. Grants and entitlements not restricted to specific programs was \$63,000 more than FY02. The district experience a decline in interest income in the amount of \$57,000.

	Governmental Activities			
	<u>Total Cost Of Services</u>	<u>Program Revenue</u>	<u>Revenues as a % of Total Cost</u>	<u>Net Cost of Services</u>
Instruction	\$ 10,479,186	498,045	3%	9,981,141
Support Services	7,011,487	204,247	1%	6,807,240
Non-instructional services	530,917	110,796	1%	420,121
Food service	573,028	627,378	3%	(54,350)
Interest on long-term debt	<u>9,631</u>	<u>-</u>	<u>0%</u>	<u>9,631</u>
Total	\$ <u>18,604,249</u>	<u>1,440,466</u>	<u>8%</u>	<u>17,163,783</u>

Governmental Funds

The School District has one major governmental fund: the General Fund. Assets of this fund comprise \$13,753,122 (97%) of the total \$14,126,575 governmental fund assets.

General Fund

Fund balance at June 30, 2003 was \$2,913,496, including \$1,218,729 of unreserved balance, which represents 7% of expenditures for fiscal year 2003. The primary reasons for the decrease in fund balance were lower tax, interest, and intergovernmental revenues along with inflationary increases in expenditures and new program offering in literacy.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the School District had \$3,690,146 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. The total decrease in the School District's investment in capital assets for the current fiscal year was approximately 12%. See Note 7 to the financial statements for more detail.

**Capital Assets at Year-End
 (Net of Depreciation)**

	Governmental Activities
Land	267,092
Building and improvements	1,999,648
Equipment and furniture	744,069
Vehicles	679,337
Total	\$ <u>3,690,146</u>

There were no major capital assets purchased or disposed during the current fiscal year.

Debt

For the year ended June 30, 2003, the district retired \$54,501 in debt associated with a 1996 House Bill 264 Energy Conservation Project. As of June 30, 2003 the balance of outstanding general obligation debt is \$149,687 with related interest payments of \$6,612 due in FY04.

Please see Note 12 to the financial statements

ECONOMIC FACTORS

A challenge facing the School 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 aspect 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.

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Management's Discussion and Analysis
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The mediator issued his final report indication that the conference was unable to produce a settlement so the case was reconsidered by the Court. On December 11, 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

REQUEST FOR ADDITIONAL INFORMATION

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

Scott Charles Hiles
Treasurer
December 31, 2003

THREE RIVERS LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2003

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 3,398,123
Receivables:	
Taxes	10,679,915
Accounts	10,802
Intergovernmental	20,609
Interest	3,108
Supplies inventory	10,364
Nondepreciable capital assets	267,092
Depreciable capital assets, net	<u>3,423,054</u>
Total assets	<u>17,813,067</u>
Liabilities:	
Accounts payable	65,928
Accrued wages and benefits	1,337,610
Pension obligation payable	278,580
Deferred revenue	9,335,463
Noncurrent liabilities:	
Due within one year	89,404
Due within more than one year	<u>1,357,552</u>
Total liabilities	<u>12,464,537</u>
Net Assets:	
Invested in capital assets, net of related debt	3,540,459
Restricted for:	
Capital projects	26,394
Other purposes	42,240
Unrestricted	<u>1,739,437</u>
Total net assets	<u>\$ 5,348,530</u>

See accompanying notes to the basic financial statements.

THREE RIVERS LOCAL SCHOOL DISTRICT

Statement of Activities
Year Ended June 30, 2003

		<u>Program Revenues</u>		Net (Expense)
		Charges for	Operating	Revenue and
		Services	Grants and	Changes in
	<u>Expenses</u>	and Sales	Contributions	Net Assets
Governmental Activities:				<u>Governmental</u>
				<u>Activities</u>
Instruction:				
Regular	\$ 8,505,780	101,620	100,282	\$ (8,303,878)
Special education	1,969,592	-	289,473	(1,680,119)
Other instruction	3,814	-	6,670	2,856
Support services:				
Pupil	1,012,034	-	-	(1,012,034)
Instructional staff	700,954	-	163,306	(537,648)
Board of Education	57,939	-	-	(57,939)
Administration	1,923,955	-	-	(1,923,955)
Fiscal	440,971	-	-	(440,971)
Business	108,487	-	-	(108,487)
Operation and maintenance of plant	1,526,157	-	-	(1,526,157)
Pupil transportation	1,114,152	-	-	(1,114,152)
Central	126,838	-	40,941	(85,897)
Non-instructional services:				
Extracurricular activities	489,471	110,796	-	(378,675)
Community service	41,446	-	-	(41,446)
Food Service	573,028	471,932	155,446	54,350
Interest on long-term debt	9,631	-	-	(9,631)
Total Governmental Activities	<u>18,604,249</u>	<u>684,348</u>	<u>756,118</u>	<u>(17,163,783)</u>
 General Revenues:				
Property taxes, levied for general purposes				10,048,628
Grants and entitlements not restricted to specific programs				5,584,581
Investment earnings				70,404
Miscellaneous				243,245
Total general revenues				<u>15,946,858</u>
Change in net assets				(1,216,925)
Net assets beginning of year				<u>6,565,455</u>
Net assets end of year			\$	<u>5,348,530</u>

See accompanying notes to the basic financial statements.

THREE RIVERS LOCAL SCHOOL DISTRICT

Balance Sheet
 Governmental Funds
 June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and investments	\$ 2,942,189	273,724	3,215,913
Restricted cash	182,210	-	182,210
Receivables:			
Taxes	10,615,814	64,101	10,679,915
Accounts	6,147	4,655	10,802
Accrued interest	3,108	-	3,108
Intergovernmental	-	20,609	20,609
Supplies and inventory	-	10,364	10,364
Interfund receivable	3,654	-	3,654
Total assets	13,753,122	373,453	14,126,575
 Liabilities:			
Accounts payable	63,244	2,684	65,928
Accrued wages and benefits	1,216,545	121,065	1,337,610
Pension obligation payable	198,808	26,700	225,508
Interfund payable	-	3,654	3,654
Deferred revenue	9,361,029	64,101	9,425,130
Total liabilities	10,839,626	218,204	11,057,830
 Fund Balances:			
Reserved for:			
Encumbrances	257,772	26,144	283,916
Budget stabilization	182,210	-	182,210
Property taxes	1,254,785	-	1,254,785
Unreserved, reported in:			
General Fund	1,218,729	-	1,218,729
Special Revenue Funds	-	72,847	72,847
Capital Projects Funds	-	56,258	56,258
Total fund balances	2,913,496	155,249	3,068,745
 Total liabilities and fund balances	 \$ 13,753,122	 373,453	 14,126,575

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003

Total Governmental Fund Balances \$ 3,068,745

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. 3,690,146

Other long-term assets are not available to pay for current-period
 expenditures and therefore are not reported in the funds. 89,667

Long-term liabilities, including bonds payable, are not due and
 payable in the current period and therefore are not reported
 in the funds.

Energy Conservation Note	149,687	
Compensated absences	1,297,269	
Pension obligation payable	<u>53,072</u>	
Total		<u>(1,500,028)</u>

Net Assets of Governmental Activities \$ 5,348,530

THREE RIVERS LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2003

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 10,007,614	64,101	10,071,715
Tuition and fees	94,441	7,084	101,525
Interest	69,551	-	69,551
Charges for services	-	471,932	471,932
Intergovernmental	5,618,722	715,590	6,334,312
Other local revenues	143,565	214,042	357,607
Total revenues	<u>15,933,893</u>	<u>1,472,749</u>	<u>17,406,642</u>
Expenditures:			
Current:			
Instruction:			
Regular	8,071,133	145,006	8,216,139
Special education	1,617,587	419,061	2,036,648
Other instruction	10,829	3,386	14,215
Support services:			
Pupil	739,884	286,617	1,026,501
Instructional staff	710,880	30,778	741,658
Board of Education	56,244	-	56,244
Administration	1,604,403	-	1,604,403
Fiscal	431,459	-	431,459
Business	105,314	-	105,314
Operation and maintenance of plant	1,374,265	223	1,374,488
Pupil transportation	1,116,450	-	1,116,450
Central	98,509	24,619	123,128
Non-instructional services:			
Extracurricular activities	290,123	189,182	479,305
Community service	27,920	11,779	39,699
Food service	-	619,732	619,732
Capital outlay	109,542	-	109,542
Debt Service:			
Principal	-	54,501	54,501
Interest and fiscal charges	-	9,631	9,631
Total expenditures	<u>16,364,542</u>	<u>1,794,515</u>	<u>18,159,057</u>
Excess of revenues over (under) expenditures	<u>(430,649)</u>	<u>(321,766)</u>	<u>(752,415)</u>
Other financing sources (uses):			
Transfers in	750	177,273	178,023
Transfers out	(170,546)	(7,477)	(178,023)
Total other financing sources (uses):	<u>(169,796)</u>	<u>169,796</u>	<u>-</u>
Net change in fund balance	(600,445)	(151,970)	(752,415)
Fund balance, beginning of year	3,513,941	307,219	3,821,160
Fund balance, end of year	\$ <u>2,913,496</u>	<u>155,249</u>	<u>3,068,745</u>

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	(752,415)
<p>Amounts reported for governmental activities in the statement of activities are different because</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Capital outlay		28,450
Depreciation expense		(523,250)
<p>Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		54,501
<p>Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		(1,124)
<p>Revenues in the statement of activities that do not provide current financial current financial resources are not reported as revenues in the funds.</p>		
		<u>(23,087)</u>
 Change in Net Assets of Governmental Activities	 \$	 <u><u>(1,216,925)</u></u>

THREE RIVERS LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund
Balance - Budget and Actual (Non-GAAP Budgetary Basis)

General Fund

Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	10,526,147	10,504,080	10,504,080	-
Tuition and fees	-	39,010	39,010	-
Interest	-	91,311	91,311	-
Intergovernmental	4,934,076	5,621,918	5,621,918	-
Other local revenues	455,567	122,382	122,382	-
Total revenues	<u>15,915,790</u>	<u>16,378,701</u>	<u>16,378,701</u>	-
Expenditures:				
Current:				
Instruction:				
Regular	7,548,621	7,922,881	7,922,881	-
Special education	1,551,068	1,627,970	1,627,970	-
Other instruction	10,317	10,829	10,829	-
Support services:				
Pupil	736,315	725,712	725,712	-
Instructional staff	712,667	702,404	702,404	-
Board of Education	47,123	46,444	46,444	-
Administration	1,634,764	1,611,222	1,611,222	-
Fiscal	435,952	429,674	429,674	-
Business	109,710	108,130	108,130	-
Operation and maintenance of plant	1,499,416	1,477,823	1,477,823	-
Pupil transportation	1,120,121	1,103,990	1,103,990	-
Central	100,074	98,633	98,633	-
Non-instructional services:				
Community services	14,147	25,455	25,455	-
Extracurricular activities	160,401	288,608	288,608	-
Capital outlay	98,166	176,629	176,629	-
Total expenditures	<u>15,778,862</u>	<u>16,356,404</u>	<u>16,356,404</u>	-
Excess of revenues over expenditures	136,928	22,297	22,297	-
Other financing sources (uses):				
Transfers in	-	750	750	-
Transfers out	(80,000)	(105,502)	(105,502)	-
Advances out	-	(65,044)	(65,044)	-
Other sources	175,783	73,090	73,090	-
Total other financing sources (uses):	<u>95,783</u>	<u>(96,706)</u>	<u>(96,706)</u>	-
Net change in fund balance	232,711	(74,409)	(74,409)	-
Fund balance, beginning of year	3,209,319	3,209,319	3,209,319	
Prior year encumbrances appropriated	529,473	529,473	529,473	
Fund balance, end of year	<u>3,971,503</u>	<u>3,664,383</u>	<u>3,664,383</u>	

See accompanying notes to required supplemental information.

THREE RIVERS LOCAL SCHOOL DISTRICT

Statement of Net Assets

Fiduciary Funds

June 30, 2003

		Private Purpose Trusts	Agency Funds
ASSETS			
Equity in pooled cash and investments	\$	<u>82,013</u>	<u>18,818</u>
Total assets		<u><u>82,013</u></u>	<u><u>18,818</u></u>
LIABILITIES			
Due to student groups		<u>-</u>	<u>18,818</u>
Total liabilities		<u>-</u>	<u><u>18,818</u></u>
NET ASSETS			
Held in trust	\$	<u><u>82,013</u></u>	

See accompanying notes to the basic financial statements.

THREE RIVERS LOCAL SCHOOL DISTRICT

Statement of Changes in Net Assets

Fiduciary Funds

Year Ended June 30, 2003

	<u>Private- Purpose Trust Funds</u>
Additions:	
Contributions	\$ 14,897
Interest	<u>3,008</u>
Total additions	17,905
Deductions:	
Community gifts, awards and scholarships	<u>15,842</u>
Total deductions	<u>15,842</u>
Change in net assets	2,063
Net assets, beginning of year	<u>79,950</u>
Net assets, end of year	\$ <u><u>82,013</u></u>

See accompanying notes to the basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The School District was originally chartered by the Ohio State Legislature. In 1853, state laws were enacted to create local Boards of Education. Today, the School 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 School District operates under a locally elected five-member Board of Education (the Board) and is responsible for the education of the residents of the School District. This Board controls the School District's instructional and support facilities staffed by 86 non-certificated personnel and 140 certified teaching and administrative personnel to provide services to students and other community members.

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

B. Basis of Presentation

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

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Fund Financial Statements. Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

C. Fund Accounting

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are grouped into the categories governmental and fiduciary.

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 School 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 to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Fiduciary Funds report on net assets and changes in net assets. The School District's fiduciary funds consist of a private-purpose trust fund and agency funds. The School District's private-purpose trust funds account for scholarship programs for students. These assets are not available for the School District's use. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Basis of Accounting

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

The modified accrual basis of accounting is used by the governmental funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, interest, tuition, student fees, and grants.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt which is recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Government-wide financial statements are prepared using the accrual basis of accounting. Also, fiduciary funds utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

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.

Non-exchange transactions, in which the School District receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes were 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 fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2003 which are intended to finance fiscal year 2004 operations, and delinquent property taxes whose availability is indeterminable, have been 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.

E. Budgetary Process

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

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

Estimated Resources. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

Appropriations. Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function and object levels of expenditures, which are the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriate resolutions, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at the level of control. Any revisions that alter the total of any fund, function, or object appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions. The Board passed supplemental appropriations during the fiscal year.

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

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

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. During fiscal year 2003, the District's investments were limited to U.S. Treasury notes, U.S. Agency securities and the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

The Governmental Accounting Standards Board Statement No. 31 (GASB 31), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," requires that investments, with certain exceptions, be recorded at their fair value and that changes in the fair value be reported in the operating statement. The School District recorded investments held at June 30, 2003 at fair value.

Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to agency funds, certain trust funds, and those other funds individually authorized by Board resolution. Interest earnings are allocated to these funds based on average monthly cash balance.

G. Inventory

Inventories of governmental funds are stated at cost, determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased.

H. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The School 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 School District does not possess any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

I. Interfund Balances

On fund financials, receivables and payables resulting from short-term interfund loans are classified as "interfund receivable/payable." These amounts are eliminated in the governmental activities column of the statement of net assets.

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy.

The 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.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

L. Fund Balance Reserves

The School 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 indicates 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 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.

M. 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.

N. Net Assets

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

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

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the

amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2003, the School District implemented the following:

- GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments*.
- GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*.
- GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.
- GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.
- GASB Interpretation No. 6, *Recognition and Measurements of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The government-wide financial statements split the School District's programs between business-type and governmental activities.

The beginning net asset amount for governmental programs reflects the change in fund balance at June 30, 2002 caused by the conversion to the accrual basis of accounting as well as the reclassification of the Food Service and Uniform School Supplies enterprise funds as special revenue funds.

Fund balance – all governmental funds – June 30, 2002	\$ 3,762,145
GASB 34 adjustments:	
Revenue recognition	112,754
Capital assets	4,184,946
Long-term liabilities	(1,553,405)
Reclassification of enterprise funds as special revenue funds	<u>59,015</u>
Governmental activities net assets – June 30, 2002	\$ <u>6,565,455</u>

3. DEFICIT FUND BALANCES

At June 30, 2003, the Title I, DPIA, and Title IV-B special revenue funds had deficit fund balances of \$9,063, \$7,901, and \$5,282, respectively. These deficit balances were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

4. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board 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 pass book accounts.

Protection of the School 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 two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

Three Rivers Local School District
Notes to the Basic Financial Statements
Year Ended June 30, 2003

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 one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, 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 School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, 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 School District's deposits was \$(111,600) and the bank balance was \$92,352. Of the bank balance, \$92,352 was covered by federal depository insurance.

Investments: The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments, which are held by the counter party's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the School District's name. The School District's investments in STAR Ohio and U.S. Money Markets are unclassified because they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 2</u>	<u>Fair Value</u>
U.S. Agency Securities	1,025,481	1,025,481
GASB Statement No. 3	\$ 1,025,481	1,025,481

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 School 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 percent 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 percent of true value (with certain exceptions) and on real property at 35 percent 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 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. 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 School District receives property taxes from Butler County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 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, 2003. 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, 2003, was \$1,254,785 in the General Fund. The assessed values upon which fiscal year 2003 taxes were collected are:

		<u>2002 Second- Half Collections</u>		<u>2003 First- Half Collections</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$	329,848,107	86.15%	336,445,069	86.15%
Tangible Personal Property		<u>53,043,403</u>	13.85%	<u>54,104,271</u>	13.85%
Total Assessed Value	\$	<u>382,891,510</u>	100.00%	<u>390,549,340</u>	100.00%

Three Rivers Local School District
Notes to the Basic Financial Statements
Year Ended June 30, 2003

Tax rate per \$1,000 of assessed valuation	\$24.99	\$25.79
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6. INTERFUND TRANSACTIONS

On the fund financial statements, the General Fund has a receivable of \$3,654 that consists of amounts due from non-major governmental funds. These interfund loans were made to provide operating capital.

During the year ended June 30, 2003, the General Fund made transfers of \$170,546 to non-major governmental funds. There was also a transfer of \$7,477 between non-major governmental funds. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2003 was as follows:

	Balance <u>7/1/02</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6/30/03</u>
<i>Governmental Activities</i>				
Nondepreciable:				
Land	\$ <u>267,092</u>	-	-	<u>267,092</u>
Depreciable:				
Buildings and improvements	8,635,538	28,450	-	8,663,988
Vehicles	1,552,253	-	-	1,552,253
Equipment and furniture	<u>1,673,986</u>	-	-	<u>1,673,896</u>
Subtotal	<u>11,861,777</u>	<u>28,450</u>	-	<u>11,890,227</u>
Totals at historical cost	<u>12,128,869</u>	<u>28,450</u>	-	<u>12,157,319</u>
Less accumulated depreciation:				
Buildings and improvements	6,497,221	167,119	-	6,664,340
Vehicles	722,650	150,266	-	872,916
Equipment and furniture	<u>724,052</u>	<u>205,865</u>	-	<u>929,917</u>
Total accumulated depreciation	<u>7,943,923</u>	<u>523,250</u>	-	<u>8,467,173</u>
Capital assets – net	\$ <u>4,184,946</u>	<u>(494,800)</u>	-	<u>3,690,146</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 226,337
Special	61,367
Other instruction	428
Support services:	
Pupil	30,930
Instructional staff	22,347
Board of Education	1,695
School administration	48,343
Fiscal	13,000
Business	3,173
Operation and maintenance of plant	41,415
Pupil transportation	33,640
Central	3,710
Community service	1,196
Extracurricular activities	14,442
Food service	<u>21,227</u>
Total depreciation expense	\$ <u>523,250</u>

8. RISK MANAGEMENT

The School 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 2003, 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 School 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.

9. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer 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.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, 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 School District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were approximately \$390,654, \$339,512, and \$286,320 respectively; 84% has been contributed for 2003 and 100% for fiscal years 2002 and 2001.

State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basis 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 percent 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 9.3% of their annual covered salary and the School 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 School District's required contributions for pension obligations to STRS for the years ended June 30, 2003, 2002, and 2001 were \$162,780, \$136,300 and \$140,912 respectively; 75% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is recorded as a liability within the respective funds.

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 School District's liability is 6.2% of wages paid.

10. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of 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, 2003, the board allocated employer contributions equal to 1.0% of covered payroll to the Health Care Reserve Fund. For the School District, this amount was approximately \$374,000 during fiscal year 2003. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$2.8 million at June 30, 2003. For the year ended June 30, 2003, net health care costs paid by STRS were \$460.1 million and STRS had 108,294 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll.

An additional health care surcharge on employers is collected by SERS for employees earning less than actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than two percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2003, the minimum pay has been established at \$14,500.

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. Expenses for health care for the year ended June 30, 2003 were \$204.9 million and the target level was \$307.4 million. At June 30, 2003, SERS' net assets available for payment of health care benefits were \$303.6 million below the target amount. SERS has approximately 50,000 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits, including the surcharge, was approximately \$239,000 during the 2003 fiscal year.

11. EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Non-certified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service while administrators receive twenty 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 one and one-fourth days per month. Sick leave may be accumulated up to maximum of 260 days for administrators and 188 days for teachers and classified staff. Upon retirement, payment is made for twenty-five percent of the employee's accumulated sick leave.

12. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Principal Outstanding <u>7/1/02</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>6/30/03</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Energy Conservation Notes	\$ 204,188	-	(54,501)	149,687	57,489
Compensated absences	<u>1,251,473</u>	<u>45,796</u>	<u>-</u>	<u>1,297,269</u>	<u>31,315</u>
Total	\$ <u>1,455,661</u>	<u>45,796</u>	<u>(54,501)</u>	<u>1,446,956</u>	<u>89,404</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>
2004	\$ 6,612	57,489
2005	3,460	60,642
2006	<u>494</u>	<u>31,556</u>
	\$ <u>10,566</u>	<u>149,687</u>

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences and pension obligation will be paid from the fund from which the employees' salaries are paid. The School District's overall legal debt margin was \$35,039,441 with an unvoted debt margin of \$390,549 at June 30, 2003.

13. JOINTLY GOVERNED ORGANIZATIONS

Hamilton/Clermont Cooperative Association

The Hamilton/Clermont County Cooperative Association (HCCA) is a jointly governed organization consisting of twenty-four 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 share in a percentage of equity based on the reaources 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 School 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 45231.

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 School District. The School 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.

14. CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 School District at June 30, 2003.

Litigation

The School District is party to legal proceedings. The School 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 School District.

15. REQUIRED SET-ASIDES

The School 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.

		Capital	Budget
	Textbooks	Improvements	Stabilization
Set-aside balance as of June 30, 2002	\$ -	-	182,210
Current year set-aside requirement	287,662	287,662	-
Less qualifying disbursements	<u>(378,058)</u>	<u>(362,342)</u>	<u>-</u>
Total	<u>(90,396)</u>	<u>(74,680)</u>	<u>182,210</u>
Balance carried to FY2004	<u>-</u>	<u>-</u>	<u>182,210</u>
Cash balance as of June 30, 2003	\$ <u>-</u>	<u>-</u>	<u>182,210</u>

Since the School 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 could be used to reduce the set aside requirements of future years but the School District has elected not to carry the excess forward. 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 School District chose not to reduce its budget stabilization reserve.

16. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. A reconciliation of the nature and amounts of the adjustments necessary to convert the GAAP financial statements to the budgetary basis is as follows:

	<u>Net Change in Fund Balance</u>
GAAP Basis	\$ (600,445)
Revenue accruals	(518,518)
Expenditure accruals	786,782
Encumbrances	<u>257,772</u>
Budgetary Basis	\$ <u>(74,409)</u>

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

THREE RIVERS LOCAL SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

<u>Federal Grantor/Program Title</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>192,888</u>	<u>225,674</u>
Total Special Education Cluster		192,888	225,674
Grants to Local Education Agencies (ESEA Title I)	84.010	303,043	330,549
Vocational Education	84.048	3,582	1,679
Title II	84.151	7,764	5,437
Eisenhower Grant	84.281	-	165
Class Size Reduction	84.340	35,656	46,647
Safe and Drug Free Schools	84.186	10,657	8,275
School Renovation Idea and Technology	84.352	2,150	18,378
Goals 2000	84.276	<u>-</u>	<u>4,561</u>
Total U.S. Department of Education		<u>555,740</u>	<u>641,365</u>
 <u>U.S. Department of Health and Human Services:</u>			
(Passed through Ohio Department of Education)			
Title XIX	93.778	\$ <u>34,141</u>	<u>34,141</u>
Total U.S. Department of Helath and Human Services		<u>34,141</u>	<u>34,141</u>
Total Federal Awards		\$ <u>770,286</u>	<u>852,234</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 disbursed.

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.

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Board of Education
Three Rivers Local School District
Cleves, Ohio 45002

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Three Rivers Local School District (the District) as of and for the year ended June 30, 2003 which collectively comprise the District's basic financial statements and have issued our report thereon dated September 24, 2004 wherein we noted the District implemented Governmental Accounting Standards Board Statements No. 34, 37, 38 and 39 as well as Governmental Accounting Standards Board Interpretation No. 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.


Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted certain other matters involving the internal control over financial reporting which we have reported to the management of the District in a separate letter dated September 24, 2004.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of compliance that we have reported to the management of the District in a separate letter dated September 24, 2004.

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


Middletown, Ohio
September 24, 2004

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditors' Report on Compliance with Requirements Applicable to
Each Major Program and Internal Control Over Compliance
in Accordance with OMB Circular A-133

Board of Education
Three Rivers Local School District
Cleves, Ohio 45002

Compliance

We have audited the compliance of Three Rivers Local School District (the District) with types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are 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 each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

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

Clark, Scharfer, Heckel & Co.

Middletown, Ohio
September 24, 2004

Schedule of Findings and Questioned Costs

OMB Circular A - 133

Three Rivers Local School District

June 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(I)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported noncompliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Program Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under sec. .510?</i>	No

(d)(1)(vii)	<i>Major Program</i>	Title I
(d)(1)(viii)	<i>Dollar Threshold: Type A\B programs?</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee</i>	Yes

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

NONE

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

THREE RIVERS LOCAL SCHOOL DISTRICT

Schedule of Prior Audit Findings and Questioned Costs

June 30, 2003

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 5, 2005**