

THREE RIVERS LOCAL SCHOOL DISTRICT

June 30, 2005

*FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS'REPORT*



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Three Rivers Local School District, Hamilton County, prepared by VonLehman and Company, Inc., for the audit period July 1, 2004 through June 30, 2005. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 26, 2007

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**THREE RIVERS LOCAL SCHOOL DISTRICT
CLEVES, OHIO
TABLE OF CONTENTS**

	PAGE
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 9
Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet - Governmental Funds	12
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	15
Statement of Net Assets - Fiduciary Funds	16
Statement of Changes in Net Assets - Fiduciary Funds	17
Notes to the Financial Statements	18 - 33
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)	34
Notes to the Required Supplementary Information	35 - 36
Other Information	
Schedule of Expenditures of Federal Awards	37
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <u>Government Auditing Standards</u>	38
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	39 - 40
Schedule of Findings and Questioned Costs	41
Schedule of Prior Audit Findings and Questioned Costs	42

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INDEPENDENT AUDITORS' REPORT

Board of Education
Three Rivers Local School District
Cleves, Ohio

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 16, the District has implemented Government Accounting Standard Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, and GASB Technical Bulletin No. 2004-2, Recognition of Pension and Other Postemployment Benefit Expenditures / Expenses and Liabilities by Cost-Sharing Employees, for the year ended June 30, 2005.

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our audit.

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

Board of Education
Three Rivers Local School District

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

VonLehman & Company Inc.

Cincinnati, Ohio
October 5, 2006

**THREE RIVERS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005
(Unaudited)**

The discussion and analysis of Three Rivers Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and the basic financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$727,453 which represents a 13% increase from 2004.
- General revenues accounted for \$18,599,111 in revenue or 90.7% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,901,498 or 9.3% of total revenues of \$20,500,609.
- Total assets of governmental activities decreased by \$1,322,535 as taxes receivable decreased by \$61,577 while cash and other receivables decreased by \$799,594.
- The District had \$19,773,156 in expenses related to governmental activities; \$1,901,498 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$18,599,111 were also used to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-Wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005"? The government-wide financial statements answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

The District has two kinds of funds:

- **Governmental Funds** - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.
- **Fiduciary Funds** - The District's fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

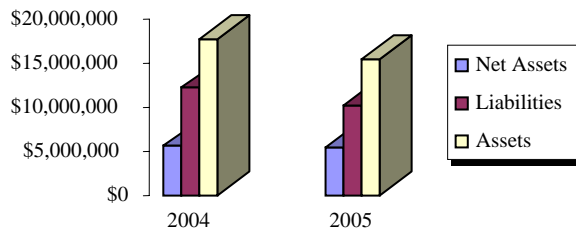
The District as a Whole

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

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

Table 1
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current Assets	\$13,292,709	\$14,152,946
Capital Assets	3,164,641	3,626,939
Total Assets	16,457,350	17,779,885
Liabilities		
Long-Term Liabilities	1,688,991	1,590,021
Other Liabilities	8,465,486	10,614,444
Total Liabilities	10,154,477	12,204,465
Net Assets		
Invested in Capital		
Assets Net of Debt	3,019,396	3,348,148
Restricted	683,776	406,382
Unrestricted	2,599,701	1,820,890
Total Net Assets	<u>\$6,302,873</u>	<u>\$5,575,420</u>



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$6,302,873.

At year end, capital assets represented 19% of total assets. Capital assets include land, buildings and improvements, vehicles, and equipment and furniture. Capital assets, net of related debt to acquire the assets at June 30, 2005, was \$3,019,396. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The balance of unrestricted net assets of \$2,599,701 may be used to meet the District's ongoing obligations to the students and creditors.

Table 2 shows the change in net assets for fiscal year 2005 compared to 2004.

Table 2
Changes in Net Assets

	Governmental Activities	
	2005	2004
Revenues		
Program Revenues:		
Charges for Services	\$ 755,584	\$ 684,557
Operating Grants	1,128,611	1,135,636
Capital Grants	17,303	16,780
General Revenue:		
Property Taxes	12,970,114	12,072,527
Grants and Entitlements	5,299,363	5,470,632
Other	329,634	646,354
Total Revenues	20,500,609	20,026,486
Program Expenses:		
Instruction	11,277,915	11,089,082
Support Services:		
Pupil and Instructional Staff	1,869,459	1,782,450
General and School Administrative, Fiscal and Business	2,484,010	2,690,324
Operations and Maintenance	1,549,374	1,553,455
Pupil Transportation	1,027,108	1,138,956
Central	483,084	238,814
Operation of Non-Instructional Services	594,736	736,404
Extracurricular Activities	479,170	691,676
Interest and Fiscal Charges	8,300	10,124
Total Expenses	19,773,156	19,931,285
Change in Net Assets	727,453	95,201
Beginning Net Assets	5,575,420	5,480,219
Ending Net Assets	\$ 6,302,873	\$ 5,575,420

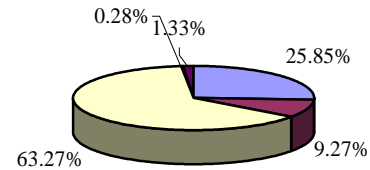
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes plus grants and entitlements comprised 89.1% of the District's revenues for governmental activities.

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

Thus, Ohio districts do not receive additional property tax revenue from increases in appraisal values and must regularly return to the voters to maintain a constant level of service. Property taxes made up 61.6% of revenue for governmental activities for the District in fiscal year 2005.

Revenue Sources	2005	Percent of Total
General Grants	\$ 5,299,363	25.85%
Program Revenues	1,901,498	9.27%
General Tax Revenues	12,970,114	63.27%
Investment Earnings	55,952	0.28%
Other Revenues	273,682	1.33%
	<u>\$ 20,500,609</u>	<u>100.00%</u>



Instruction comprises 57% of governmental program expenses. Support services expenses were 37.5% of governmental program expenses. All other program expenses were 5.5%.

The District had a minimal decrease in the amount of grant and entitlement monies it received compared to 2004. The amount of tax revenue increased in 2005. Total program expenses declined slightly from 2004.

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction	\$ 11,277,915	\$ 11,089,082	\$ (10,552,801)	\$ (10,498,741)
Support Services:				
Pupil and Instructional Staff	1,869,459	1,782,450	(1,594,012)	(1,368,814)
General and School Administrative, Fiscal and Business	2,484,010	2,690,324	(2,484,010)	(2,690,324)
Operations and Maintenance	1,549,374	1,553,455	(1,549,150)	(1,548,455)
Pupil Transportation	1,027,108	1,138,956	(1,009,805)	(1,122,176)
Central	483,084	238,814	(475,238)	(231,002)
Operation of Non-Instructional Services	594,736	736,404	83,128	(54,589)
Extracurricular Activities	479,170	691,676	(281,470)	(570,087)
Interest and Fiscal Charges	8,300	10,124	(8,300)	(10,124)
Total Expenses	<u>\$ 19,773,156</u>	<u>\$ 19,931,285</u>	<u>\$ (17,871,658)</u>	<u>\$ (18,094,312)</u>

The District's Funds

The District has one major governmental fund: the general fund. Assets of the general fund comprised \$12,769,142 (95.6%) of the total \$13,358,904 governmental funds assets.

- **General Fund** - Fund balance at June 30, 2005 was \$3,911,935, an increase of \$1,179,500 from 2004. The primary reason for the increase in fund balance was decreases in expenditures for extracurricular activities and the increase in tax revenue.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget when needed. However, none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with changes in revenues and expenditures.

For the general fund, budget basis revenue was \$16,345,669, compared to original budget estimates of \$17,085,628. Of the \$739,959 difference, most was due to a difference in estimates for taxes and intergovernmental revenue.

Capital Assets and Debt Administration

Capital Assets

At fiscal year end, the District had \$3,164,641 invested in land, buildings and improvements, vehicles, and equipment and furniture. Table 4 shows fiscal 2004 balances compared to fiscal 2005:

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

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Land	\$ 267,092	\$ 267,092
Buildings and Improvements	1,798,850	1,968,163
Vehicles	392,029	528,425
Equipment and Furniture	<u>706,670</u>	<u>863,259</u>
Total Net Capital Assets	<u>\$3,164,641</u>	<u>\$3,626,939</u>

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

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

Debt

At June 30, 2005, the District had \$145,245 in bonds and capital leases payable outstanding, \$106,753 due within one year. Table 5 summarizes bonds and capital leases outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental Activities 2005	Governmental Activities 2004
Energy Conservation Bonds Payable	\$ 31,557	\$ 92,198
Fitness Equipment Capital Lease	<u>113,688</u>	<u>186,593</u>
	<u>\$145,245</u>	<u>\$278,791</u>

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

For the Future

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

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

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

Contacting the District's Financial Management

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

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Investments	\$ 1,335,919
Restricted Cash and Investments	466,093
Receivables	
Taxes	11,398,244
Accounts	10,816
Interest	431
Intergovernmental	65,015
Inventory	16,191
Nondepreciable Capital Assets	267,092
Depreciable Capital Assets, Net	<u>2,897,549</u>
Total Assets	<u>16,457,350</u>
Liabilities	
Accounts Payable	214,004
Accrued Wages and Benefits	1,970,661
Accrued Interest Payable	68
Unearned Revenue	6,280,753
Long-Term Liabilities	
Due Within One Year	471,904
Due in More Than One Year	<u>1,217,087</u>
Total Liabilities	<u>10,154,477</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,019,396
Restricted for:	
Special Revenue	199,733
Capital Projects	17,950
Set-Aside	466,093
Unrestricted	<u>2,599,701</u>
Total Net Assets	<u><u>\$ 6,302,873</u></u>

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions		
Expenses				Governmental Activities	
Governmental Activities					
Instruction					
Regular	\$ 9,102,698	\$ 120,083	\$ 210,696	\$ -	\$ (8,771,919)
Special	2,164,905	-	388,204	-	(1,776,701)
Vocational	10,312	-	6,131	-	(4,181)
Support Services					
Pupil	868,437	-	-	-	(868,437)
Instructional Staff	1,001,022	-	275,447	-	(725,575)
General Administration	60,291	-	-	-	(60,291)
School Administration	1,917,836	-	-	-	(1,917,836)
Fiscal	491,250	-	-	-	(491,250)
Business	14,633	-	-	-	(14,633)
Operations and Maintenance	1,549,374	-	224	-	(1,549,150)
Pupil Transportation	1,027,108	-	-	17,303	(1,009,805)
Central	483,084	-	7,846	-	(475,238)
Operation of Non-Instructional Services	594,736	437,801	240,063	-	83,128
Extracurricular Activities	479,170	197,700	-	-	(281,470)
Interest and Fiscal Charges	8,300	-	-	-	(8,300)
Total Governmental Activities	\$ 19,773,156	\$ 755,584	\$ 1,128,611	\$ 17,303	(17,871,658)

Property Taxes Levied for:	
General Purposes	10,477,366
Debt Service Purposes	64,100
Grants and Entitlements not Restricted to Specific Programs	5,299,363
Payment in Lieu of Taxes	2,428,648
Investment Earnings	55,952
Other Revenues	273,682
Total General Revenues and Transfers	18,599,111
Change in Net Assets	727,453
Net Assets Beginning of Year	5,575,420
Net Assets End of Year	\$ 6,302,873

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Investments	\$ 939,650	\$ 396,269	\$ 1,335,919
Restricted Cash and Investments	466,093	-	466,093
Receivables			
Taxes	11,350,168	48,076	11,398,244
Accounts	10,816	-	10,816
Interest	-	431	431
Intergovernmental	-	65,015	65,015
Interfund	2,415	63,780	66,195
Inventory	-	16,191	16,191
	Total Assets	\$ 589,762	\$ 13,358,904
	\$ 12,769,142	\$ 589,762	\$ 13,358,904
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 202,035	\$ 11,969	\$ 214,004
Accrued Wages and Benefits	1,757,853	212,808	1,970,661
Compensated Absences	205,547	-	205,547
Interfund Payable	63,780	2,415	66,195
Deferred Revenue	6,627,992	97,853	6,725,845
	Total Liabilities	325,045	9,182,252
	8,857,207	325,045	9,182,252
Fund Balances			
Reserved for Encumbrances	75,791	1,276	77,067
Reserved for Inventory	-	16,191	16,191
Reserved for Property Tax Advances	3,815,000	-	3,815,000
Reserved for Set-Aside	466,093	-	466,093
Unreserved, Undesignated, Reported in:			
General Fund	(444,949)	-	(444,949)
Special Revenue Funds	-	229,232	229,232
Capital Projects Funds	-	18,018	18,018
	Total Fund Balances	264,717	4,176,652
	3,911,935	264,717	4,176,652
Total Liabilities and Fund Balances	\$ 12,769,142	\$ 589,762	\$ 13,358,904

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005**

Total Governmental Fund Balance	\$	4,176,652
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		3,164,641
Other Long-Term Assets are not Available to Pay for Current Period Expenditures and, Therefore, are Deferred in the Funds		
Delinquent Property Taxes	395,315	
Intergovernmental	<u>49,777</u>	
		445,092
In the Statement of Net Assets, Interest Payable is Accrued When Incurred, Whereas in the Governmental Funds, Interest is Reported as a Liability Only When it Will Require the Use of Current Financial Resources		(68)
Some Liabilities Reported in the Statement of Net Assets do not Require the Use of Current Financial Resources and, Therefore, are not Reported as Liabilities in Governmental Funds		
Compensated Absences		(1,338,199)
Long-Term Liabilities are not Due and Payable in the Current Period and, Therefore, are not Reported in the Funds		<u>(145,245)</u>
Net Assets of Governmental Activities	\$	<u><u>6,302,873</u></u>

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 10,555,873	\$ 64,099	\$ 10,619,972
Tuition and Fees	120,083	-	120,083
Investment Earnings	53,941	2,011	55,952
Intergovernmental	5,397,005	1,066,519	6,463,524
Extracurricular Activities	65,270	132,430	197,700
Charges for Services	-	437,801	437,801
Payments in Lieu of Taxes	2,428,648	-	2,428,648
Other Revenues	165,456	101,393	266,849
	<u>18,786,276</u>	<u>1,804,253</u>	<u>20,590,529</u>
Total Revenues			
	18,786,276	1,804,253	20,590,529
Expenditures			
Current			
Instruction:			
Regular	8,462,459	110,501	8,572,960
Special	1,787,602	317,962	2,105,564
Vocational	-	9,809	9,809
Support Services:			
Pupil	822,404	51,051	873,455
Instructional Staff	619,354	438,457	1,057,811
General Administration	58,513	-	58,513
School Administration	1,900,260	2,120	1,902,380
Fiscal	482,454	-	482,454
Business	22,453	-	22,453
Operations and Maintenance	1,566,039	1,624	1,567,663
Pupil Transportation	1,003,641	-	1,003,641
Central	467,961	11,220	479,181
Operation of Non-Instructional Services	24,097	587,159	611,256
Extracurricular Activities	246,562	160,321	406,883
Capital Outlay	8,858	-	8,858
Debt Service:			
Principal Retirement	72,905	60,641	133,546
Interest and Fiscal Charges	4,739	3,493	8,232
	<u>17,550,301</u>	<u>1,754,358</u>	<u>19,304,659</u>
Total Expenditures			
	17,550,301	1,754,358	19,304,659
Excess of Revenues Over Expenditures	<u>1,235,975</u>	<u>49,895</u>	<u>1,285,870</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Capital Assets	6,835	-	6,835
Transfers In	-	68,094	68,094
Transfers (Out)	(63,310)	(4,784)	(68,094)
	<u>(56,475)</u>	<u>63,310</u>	<u>6,835</u>
Total Other Financing Sources (Uses)			
	(56,475)	63,310	6,835
Net Change in Fund Balance	1,179,500	113,205	1,292,705
Fund Balance - Beginning of Year, as Restated	<u>2,732,435</u>	<u>151,512</u>	<u>2,883,947</u>
Fund Balance - End of Year	<u>\$ 3,911,935</u>	<u>\$ 264,717</u>	<u>\$ 4,176,652</u>

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Net Change in Fund Balance - Total Governmental Funds \$ 1,292,705

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

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

Capital Assets Used in Governmental Activities	47,696	
Depreciation Expense	<u>(509,994)</u>	(462,298)

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

Delinquent Property Taxes	(78,507)	
Intergovernmental	<u>(18,248)</u>	(96,755)

Repayment of Bond and Capital Lease Principal is an Expenditure in the Governmental Funds, but the Repayment Reduces Long-Term Liabilities in the Statement of Net Assets		133,546
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In the Statement of Activities, Interest Expense is Accrued When Incurred, Whereas in Governmental Funds, an Interest Expenditure is Reported When Due		(68)
--	--	------

Some Expenses Reported in the Statement of Activities do not Require the
Use of Current Financial Resources and, Therefore, are not Reported as
Expenditures in Governmental Funds

Compensated Absences		<u>(139,677)</u>
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Change in Net Assets of Governmental Activities		\$ <u>727,453</u>
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See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2005**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 76,362	\$ 22,841
Receivables		
Accounts	-	500
Total Assets	76,362	23,341
Liabilities		
Other Liabilities	-	23,341
Total Net Assets Held in Trust	\$ 76,362	\$ -

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Private Purpose Trust</u>
Additions	
Donations	\$ 13,195
Investment Earnings	<u>1,626</u>
Total Additions	14,821
Deductions	
Other	<u>21,917</u>
Change in Net Assets	(7,096)
Net Assets - Beginning of Year	<u>83,458</u>
Net Assets - End of Year	<u><u>\$ 76,362</u></u>

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005**

NOTE 1 - DESCRIPTION OF THE DISTRICT

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Measurement Focus

Government-Wide Financial Statements

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Fund Financial Statements***

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

Fiduciary funds are reported using the economic resources measurement focus.

Fund Accounting

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

Governmental Funds

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

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

Fiduciary Funds

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

Basis of Accounting

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Revenues - Exchange and Non-Exchange Transactions***

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

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses / Expenditures

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

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

Equity in Pooled Cash and Investments

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "equity in pooled cash and investments" on the financial statements.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2005 credited to the general fund amounted to \$53,941.

Inventory

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

Capital Assets

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

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital asset purchases 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

Interfund Activity

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

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

Interfund Balances

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

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

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

Fund Balance Reserves

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

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

Restricted Assets

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

Net Assets

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

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

Estimates

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

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

The following funds had a deficit in fund balance at June 30, 2005:

Special Revenue Funds	
DPIA	\$ 3,481
Title I	57,500
Drug Free Schools	1,558
Classroom Size Reduction	108
Miscellaneous Federal	128

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

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the Statement of Net Assets and Balance Sheet as "Equity in Pooled Cash and Investments".

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

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

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

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

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

1. United States treasury notes, bills, bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2005, \$608,683 of the District's bank balance of \$801,230 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

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

Investments

As of June 30, 2005, the District had the following investment:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
State Treasury Pool	<u>\$1,065,000</u>	0.00

Interest Rate Risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years.

Credit Risk - It is the District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top two ratings issued by nationally recognized statistical rating organizations. The District's investments in federal agency securities were rated AAA by Standard & Poor's and Fitch Ratings and Aaa by Moody's Investors Service. Investments in STAROhio were rated AAA by Standard & Poors.

Concentration of Credit Risk - The District's investment policy allows investments in federal agencies or instrumentalities. All investments were issued or guaranteed by the federal government.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's securities are either insured and registered in the name of the District or at least registered in the name of the District.

NOTE 5 - PROPERTY TAXES

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

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20. The District receives property taxes from Hamilton County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005 are available to finance fiscal year 2006 operations. The amount available for advance can vary based on the date the tax bills are sent.

NOTE 5 - PROPERTY TAXES (Continued)

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, 2005. 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, 2005 was \$3,815,000 in the general fund.

The assessed value, by property classification, upon which taxes collected in 2005 were based is as follows:

Tangible and Public Utility Personal	\$102,886,940
Real Estate	<u>333,707,530</u>
Total Assessed Property Value	<u>\$436,594,470</u>

House Bill 66 phases out the tax on the tangible personal property of general businesses, telephone and telecommunications companies and railroads. The tax on general business and railroad property (which is public utility property) will be eliminated by 2009, and the tax on telephone and telecommunications property will be eliminated by 2011. The tax is phased out by reducing the assessment rate on the property each year. At the same time, the bill replaces the revenue lost due to phasing out the tax. In the first five years, school districts and local governments are reimbursed fully for lost revenue. In the following seven years, the reimbursements will be phased out.

NOTE 6 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 267,092	\$ -	\$ -	\$ 267,092
Capital Assets, Being Depreciated:				
Buildings and Improvements	8,859,938	8,384	-	8,868,322
Transportation	1,552,253	-	-	1,552,253
Equipment and Fixtures	<u>2,002,525</u>	<u>39,312</u>	<u>-</u>	<u>2,041,837</u>
Totals at Historical Cost	<u>12,681,808</u>	<u>47,696</u>	<u>-</u>	<u>12,729,504</u>
Less Accumulated Depreciation:				
Buildings and Improvements	6,891,775	177,697	-	7,069,472
Transportation	1,023,828	136,396	-	1,160,224
Equipment and Fixtures	<u>1,139,266</u>	<u>195,901</u>	<u>-</u>	<u>1,335,167</u>
Total Accumulated Depreciation	<u>9,054,869</u>	<u>509,994</u>	<u>-</u>	<u>9,564,863</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,626,939</u>	<u>\$(462,298)</u>	<u>\$ -</u>	<u>\$ 3,164,641</u>

NOTE 6 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$164,021
Special	30,412
Other Instruction	503
Support Services:	
Pupil	4,844
Instructional Staff	24,857
General Administration	1,778
School Administration	4,716
Fiscal	15,783
Business	3,282
Operations and Maintenance	16,041
Pupil Transportation	139,815
Central	4,225
Operation of Non-Instructional Services	23,753
Extracurricular Activities	75,964
Total Depreciation Expense	\$509,994

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, commercial insurance carriers provided insurance coverage for property, liability and vehicles. There has been no significant reduction in the coverage in the current fiscal year and settlements have not exceeded insurance coverage in any of the past three fiscal years.

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

NOTE 8 - PENSION PLANS

School Employees Retirement System

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

NOTE 8 - PENSION PLANS (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's contributions to SERS for the years ended June 30, 2005, 2004 and 2003 were \$360,372, \$337,572 and \$390,654 respectively; 49% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003.

State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the 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 their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The District's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004 and 2003 were \$188,033, \$176,885 and \$162,780, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003.

Social Security System

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

NOTE 9 - POST EMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or Combined Plan and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$25,740 for fiscal year 2005.

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

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43% of covered payroll, a decrease of 1.48% from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2% of each employer's SERS salaries. For the 2005 fiscal year, the District paid \$155,124 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,100 participants currently receiving health care benefits.

NOTE 10 - LONG-TERM LIABILITIES

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

	Principal Outstanding <u>7/1/04</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>6/30/05</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Energy Conservation Notes	\$ 92,198	\$ -	\$(60,641)	\$ 31,557	\$ 31,557
Capital Lease	<u>186,593</u>	<u>-</u>	<u>(72,905)</u>	<u>113,688</u>	<u>75,196</u>
Total Long-Term Debt	278,791	-	(133,546)	145,245	106,753
Compensated Absences	<u>1,311,230</u>	<u>447,996</u>	<u>(215,480)</u>	<u>1,543,746</u>	<u>365,151</u>
Total	<u>\$1,590,021</u>	<u>\$447,996</u>	<u>\$(349,026)</u>	<u>\$1,688,991</u>	<u>\$471,904</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>
2006	<u>\$494</u>	<u>\$31,557</u>

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

NOTE 11 - CAPITAL LEASES

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

The lease for the exercise and fitness equipment meets the criteria of capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. Capital lease payments for the exercise and fitness equipment will be made from the general fund. Depreciation held under capital lease was \$44,388 for fiscal year 2005.

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

<u>Fiscal Year Ending June 30,</u>	<u>Long-Term Debt</u>
2006	\$ 77,643
2007	<u>38,822</u>
Total Minimum Lease Payments	116,465
Less Amount Representing Interest	<u>(2,777)</u>
Present Value of Minimum Lease Payments	<u>\$113,688</u>

NOTE 11 - CAPITAL LEASES (Continued)

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

Equipment	<u>\$221,940</u>
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NOTE 12 - 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 shares in a percentage of equity based on the resources provided. HCCA is governed by the Board of Directors consisting of superintendents of the member school boards. The degree of control exercised by any participating district is limited to its representation on the Board. The operating budget of HCCA is funded by state funds and by contributions from each member district based upon a per pupil fee. The District's share of financial operations for June 30, 2005 was 3.1%.

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

Great Oaks Institute of Technology and Career Development

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

NOTE 13 - CONTINGENCIES

Grants

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

Litigation

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

NOTE 14 - REQUIRED SET-ASIDES

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-Aside Balance as of June 30, 2004	\$(92,513)	\$174,206	\$182,210
Current Year Set-Aside Requirement	293,215	293,215	-
Less Qualifying Disbursements	<u>(240,022)</u>	<u>(183,538)</u>	<u>-</u>
 Total	 <u>\$(39,320)</u>	 <u>\$283,883</u>	 <u>\$182,210</u>
 Restricted Cash Balance as of June 30, 2005	 \$ <u>-</u>	 <u>\$283,883</u>	 <u>\$182,210</u>
 Balance Carried to Fiscal Year 2006	 \$(<u>39,320</u>)	 <u>\$283,883</u>	 <u>\$182,210</u>

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

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

NOTE 15 - INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2005 consisted of the following individual fund receivables and payables.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,415	\$63,780	\$ -	\$63,310
Other Governmental Funds	<u>63,780</u>	<u>2,415</u>	<u>68,094</u>	<u>4,784</u>
	<u>\$66,195</u>	<u>\$66,195</u>	<u>\$68,094</u>	<u>\$68,094</u>

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

NOTE 16 - CHANGE IN ACCOUNTING PRINCIPLE / PRIOR PERIOD ADJUSTMENT

For fiscal year 2005, the District has implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures. GASB 40 establishes and modifies disclosure requirements related to investment risk: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments.

For fiscal year 2005, the District has implemented GASB Technical Bulletin No. 2004-2, Recognition of Pension and Other Postemployment Benefit Expenditures / Expenses and Liabilities by Cost-Sharing Employers. This Bulletin addresses the amount that should be recognized as an expenditure / expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment (OPEB) plans.

The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and nonmajor funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Nonmajor</u>
Fund Balances, June 30, 2004	\$2,833,457	\$169,387
GASB Technical Bulletin No. 2004-2	<u>(101,022)</u>	<u>(17,875)</u>
Restated Fund Balance, June 30, 2004	<u>\$2,732,435</u>	<u>\$151,512</u>

NOTE 17 - SCHOOL FUNDING DECISION

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

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

NOTE 18 - COMPENSATED ABSENCES

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

REQUIRED SUPPLEMENTARY INFORMATION

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues				
Taxes	\$ 8,493,945	\$ 8,126,082	\$ 8,126,082	\$ -
Tuition and Fees	123,915	118,548	118,548	-
Investment Earnings	56,383	53,941	53,941	-
Intergovernmental	5,641,324	5,397,005	5,397,005	-
Extracurricular Activities	68,225	65,270	65,270	-
Other Revenues	2,701,836	2,584,823	2,584,823	-
Total Revenues	17,085,628	16,345,669	16,345,669	-
Expenditures				
Current				
Instruction:				
Regular	8,468,673	8,539,842	8,539,842	-
Special	1,763,290	1,778,108	1,778,108	-
Support Services:				
Pupil	786,131	792,737	792,737	-
Instructional Staff	613,573	618,729	618,729	-
General Administration	56,121	56,593	56,593	-
School Administration	1,736,511	1,751,104	1,751,104	-
Fiscal	480,018	484,052	484,052	-
Business	23,100	23,294	23,294	-
Operations and Maintenance	1,589,844	1,603,205	1,603,205	-
Pupil Transportation	983,009	991,270	991,270	-
Central	466,927	470,851	470,851	-
Operation of Non-Instructional Services	24,408	24,613	24,613	-
Extracurricular Activities	246,043	248,111	248,111	-
Capital Outlay	8,833	8,907	8,907	-
Debt Service:				
Principal Retirement	72,905	72,905	72,905	-
Interest and Fiscal Charges	4,092	4,739	4,739	-
Total Expenditures	17,323,478	17,469,060	17,469,060	-
Excess of Revenues Under Expenditures	(237,850)	(1,123,391)	(1,123,391)	-
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	7,144	6,835	6,835	-
Advances (Out)	(25)	(25)	(25)	-
Transfers In	156,790	150,000	150,000	-
Transfers (Out)	(211,532)	(213,310)	(213,310)	-
Total Other Financing Sources (Uses)	(47,623)	(56,500)	(56,500)	-
Net Change in Fund Balance	(285,473)	(1,179,891)	(1,179,891)	-
Fund Balance - Beginning of Year (Includes Prior Year Encumbrances Appropriated)	2,307,810	2,307,810	2,307,810	-
Fund Balance - End of Year	\$ 2,022,337	\$ 1,127,919	\$ 1,127,919	\$ -

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2005.

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

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

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

Budgetary Process (Continued)

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

Net Change in Fund Balance		<u>General</u>
GAAP Basis		\$ 727,453
Net Adjustment for Revenue Accruals		(1,420,476)
Net Adjustment for Expenditure Accruals		(209,042)
Encumbrances		<u>(277,826)</u>
Budget Basis Net Change in Fund Balance		<u>\$(1,179,891)</u>

OTHER INFORMATION

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005**

<u>Grant</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>			
(Passed through Ohio Department of Education)			
Nutrition Cluster:			
School Breakfast Program	10.553	\$ 32,241	\$ 32,241
National School Lunch Program	10.555	<u>149,539</u>	<u>149,539</u>
Total U.S. Department of Agriculture		<u>181,780</u>	<u>181,780</u>
<u>U.S. Department of Education:</u>			
(Passed through Ohio Department of Education)			
Special Education Cluster:			
Title VI - B Grant	84.027	<u>394,658</u>	<u>375,660</u>
Total Special Education Cluster		394,658	375,660
Grants to Local Education Agencies (ESEA Title I)	84.010	215,461	215,461
Vocational Education	84.048	3,538	5,096
Safe and Drug Free Schools	84.186	6,686	7,738
Innovative Programs Title V	84.298	8,671	12,929
Technology Title II	84.318	4,462	4,486
Improving Teacher Quality	84.367	<u>82,483</u>	<u>100,798</u>
Total U.S. Department of Education		<u>715,959</u>	<u>722,168</u>
<u>U.S. Department of Health and Human Services</u>			
(Passed through Ohio Department of Education)			
Title XIX	93.778	<u>49,524</u>	<u>49,524</u>
Total U.S. Department of Health and Human Services		<u>49,524</u>	<u>49,524</u>
Total Federal Awards		<u>\$ 947,263</u>	<u>\$ 953,472</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - 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.



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

Board of Education
Three Rivers Local School District
Cleves, Ohio

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Three Rivers Local School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 5, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated October 5, 2006.

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

VonLehman & Company Inc.

Cincinnati, Ohio
October 5, 2006



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

Board of Education
Three Rivers Local School District
Cleves, Ohio

Compliance

We have audited the compliance of the Three Rivers Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditors' 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 affect 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 of 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, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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 the internal control over compliance in accordance with OMB Circular A-133.

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

Board of Education
Three Rivers Local School District

being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

VonLehman & Company Inc.

Cincinnati, Ohio
October 5, 2006

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

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

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters to be reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters to be reported.

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

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



Mary Taylor, CPA
Auditor of State

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
AUGUST 9, 2007