

THREE RIVERS LOCAL SCHOOL DISTRICT

June 30, 2006

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, 2005 through June 30, 2006. 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 16, 2009

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INDEPENDENT AUDITORS' REPORT

Board of Education
Three Rivers Local School District
Hamilton County, Ohio

We have audited the accompanying statements of the governmental activities, each major fund and the aggregate remaining fund information of the Three Rivers Local School District as of June 30, 2006, which collectively comprise the Three Rivers Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Three Rivers Local School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Three Rivers Local School District as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2009 on our consideration of the Three Rivers Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards. You should read it in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on Pages 1 through 8 and Pages 34 through 36 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Three Rivers Local School District
Page Two

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

VonLehman & Company Inc.

Cincinnati, Ohio
February 3, 2009

**THREE RIVERS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2006
(Unaudited)**

The discussion and analysis of the Three Rivers Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- In total, net assets increased \$930,872, which represents a 14.8% increase from 2005.
- General revenues accounted for \$18,934,129 in revenue, or 90.6% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,974,756, or 9.4% of total revenues of \$20,908,885.
- The District had \$19,978,013 in expenses related to governmental activities; \$1,974,756 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$18,934,129 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 2006?" The government-wide financial statements answers 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.

**THREE RIVERS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

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.

**THREE RIVERS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

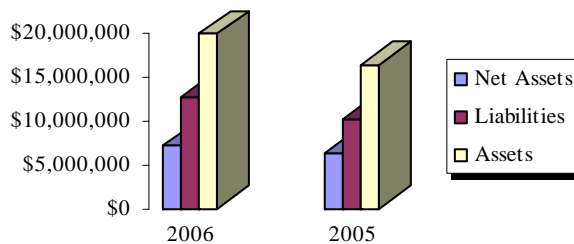
The District as a Whole

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 2006 compared to 2005:

**Table 1
Net Assets**

| | Governmental Activities | |
|--------------------------|-------------------------|---------------------|
| | 2006 | 2005 |
| Assets | | |
| Current Assets | \$ 17,073,966 | \$ 13,292,709 |
| Capital Assets | 2,842,103 | 3,164,641 |
| Total Assets | 19,916,069 | 16,457,350 |
| Liabilities | | |
| Long-Term Liabilities | 1,983,266 | 1,688,991 |
| Other Liabilities | 10,699,058 | 8,465,486 |
| Total Liabilities | 12,682,324 | 10,154,477 |
| Net Assets | | |
| Invested in Capital | | |
| Assets Net of Debt | 2,803,613 | 3,019,396 |
| Restricted | 835,232 | 683,776 |
| Unrestricted | 3,594,900 | 2,599,701 |
| Total Net Assets | \$ 7,233,745 | \$ 6,302,873 |



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$7,233,745.

At year end, capital assets represented 14% of total assets. Capital assets include land, buildings and improvements, transportation, and equipment and fixtures. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$2,803,613. 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.

**THREE RIVERS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

The balance of unrestricted net assets of \$3,594,900 may be used to meet the District's ongoing obligations to the students and creditors.

Current and Other Assets increased mainly due to an increase in Equity in Pooled Cash and Investments, which was as a result of the District holding a larger balance of investments as compared to the prior year. Current and Other Assets also increased due to an increase in property taxes received during 2006 as compared to 2005. Other Liabilities increased due to an increase in Unearned Revenue, which was largely due to an increase in Taxes Receivable.

Table 2 shows the change in net assets for fiscal year 2006 compared to 2005.

**Table 2
Changes in Net Assets**

| | Governmental Activities | |
|---|-------------------------|--------------|
| | 2006 | 2005 |
| Revenues | | |
| Program Revenues | | |
| Charges for Services | \$ 786,956 | \$ 755,584 |
| Operating Grants | 1,187,800 | 1,128,611 |
| Capital Grants | - | 17,303 |
| General Revenue | | |
| Property Taxes | 12,952,810 | 10,541,466 |
| Grants and Entitlements | 5,476,891 | 5,299,363 |
| Other | 504,428 | 2,758,282 |
| Total Revenues | 20,908,885 | 20,500,609 |
| Program Expenses | | |
| Instruction | 11,263,710 | 11,277,915 |
| Support Services | | |
| Pupil and Instructional Staff | 1,762,229 | 1,869,459 |
| General and School Administrative, Fiscal and Business | 2,475,218 | 2,484,010 |
| Operations and Maintenance | 1,752,201 | 1,549,374 |
| Pupil Transportation | 1,211,712 | 1,027,108 |
| Central | 371,408 | 483,084 |
| Operation of Non-Instructional Services | 690,808 | 594,736 |
| Extracurricular Activities | 447,266 | 479,170 |
| Interest and Fiscal Charges | 3,461 | 8,300 |
| Total Expenses | 19,978,013 | 19,773,156 |
| Change in Net Assets | 930,872 | 727,453 |
| Beginning Net Assets | 6,302,873 | 5,575,420 |
| Ending Net Assets | \$ 7,233,745 | \$ 6,302,873 |

**THREE RIVERS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

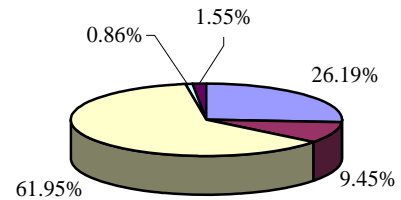
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general purposes, special revenue purposes and grants and entitlements comprised 88.1% 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 \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners), the effective tax rate would become .5 mills and the owner would still pay \$35.00.

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 61.9% of revenue for governmental activities for the District in fiscal year 2006.

| Revenue Sources | 2006 | Percent of Total |
|----------------------|----------------------|---------------------|
| General Grants | \$ 5,476,891 | 26.19% |
| Program Revenues | 1,974,756 | 9.45% |
| General Tax Revenues | 12,952,810 | 61.95% |
| Investment Earnings | 179,909 | 0.86% |
| Other Revenues | 324,519 | 1.55% |
| | <u>\$ 20,908,885</u> | <u>100.00%</u> |



Instruction comprises 56.4% of governmental program expenses. Support services expenses were 37.9% of governmental program expenses. All other program expenses were 5.7%.

General revenues increased mainly due to an increase in property taxes revenue in 2006 as compared to 2005. Total expenses remained relatively consistent in 2006 as compared to 2005.

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.

**THREE RIVERS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

**Table 3
Governmental Activities**

| | Total Cost of Services | | Net Cost of Services | |
|---|------------------------|----------------------|------------------------|------------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Instruction | \$ 11,263,710 | \$ 11,277,915 | \$ (10,251,437) | \$ (10,552,801) |
| Support Services: | | | | |
| Pupil and Instructional Staff | 1,762,229 | 1,869,459 | (1,658,792) | (1,594,012) |
| General and School Administrative, Fiscal and Business | 2,475,218 | 2,484,010 | (2,474,218) | (2,484,010) |
| Operations and Maintenance | 1,752,201 | 1,549,374 | (1,752,201) | (1,549,150) |
| Pupil Transportation | 1,211,712 | 1,027,108 | (1,207,227) | (1,009,805) |
| Central | 371,408 | 483,084 | (365,204) | (475,238) |
| Operation of Non-Instructional Services | 690,808 | 594,736 | (37,557) | 83,128 |
| Extracurricular Activities | 447,266 | 479,170 | (253,160) | (281,470) |
| Interest and Fiscal Charges | 3,461 | 8,300 | (3,461) | (8,300) |
| Total Expenses | \$ 19,978,013 | \$ 19,773,156 | \$ (18,003,257) | \$ (17,871,658) |

The District's Funds

The District has one major governmental fund: the General Fund. Assets of the General Fund comprised \$16,208,627 (94.6%) of the total \$17,140,136 governmental funds assets.

General Fund

Fund balance at June 30, 2006 was \$5,111,901, an increase of \$1,199,966 from 2005. The primary reason for the increase in fund balance was decreases in expenditures for special instruction and school administration.

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 2006, 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, original budget basis revenue was \$13,060,177, compared to the amended budget estimates of \$17,440,746. Of the \$4,380,589 difference, most was due to a difference in estimates for taxes and intergovernmental revenue.

**THREE RIVERS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At fiscal year end, the District had \$2,842,103 invested in land, buildings and improvements, transportation, and equipment and fixtures. Table 4 shows fiscal 2006 balances compared to fiscal 2005:

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

| | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|--------------------|
| | <u>2006</u> | <u>2005</u> |
| Land | \$ 267,092 | \$ 267,092 |
| Buildings and Improvements | 1,645,252 | 1,798,850 |
| Transportation | 272,437 | 392,029 |
| Equipment and Fixtures | <u>657,322</u> | <u>706,670</u> |
| Total Net Capital Assets | <u>\$2,842,103</u> | <u>\$3,164,641</u> |

The decrease in capital assets is due to current year depreciation expense exceeding current year capital assets additions.

See Note 7 to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2006, the District had \$38,490 in bonds and capital leases payable outstanding, \$38,490 due within one year. Table 5 summarizes bonds and capital leases outstanding.

**Table 5
Outstanding Debt, at Year End**

| | <u>Governmental Activities</u> | |
|-----------------------------------|--------------------------------|------------------|
| | <u>2006</u> | <u>2005</u> |
| Energy Conservation Bonds Payable | \$ - | \$ 31,557 |
| Fitness Equipment Capital Lease | <u>38,490</u> | <u>113,688</u> |
| | <u>\$ 38,490</u> | <u>\$145,245</u> |

See Notes 11 and 12 to the basic financial statements for further details on the District's long-term obligations.

**THREE RIVERS LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

For the Future

In June of 2005, the State legislature passed House Bill 66. House Bill 66 phases out the tax on tangible personal property of general business, telephone and telecommunications companies, and railroads. The tax on general business and railroad property began being phased out in 2006 and will be eliminated by 2009. The tax on telephone and telecommunication property will begin being phased out in 2009 and will be eliminated by 2011. The tax is being phased out by reducing the assessment rate on the property each year. In the first five years, school districts are being reimbursed fully for the lost revenue; in the following seven years, the reimbursements are phased out.

This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures.

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, 2006

| | <u>Governmental Activities</u> |
|---|---|
| Assets | |
| Equity in Pooled Cash and Investments | \$ 3,766,828 |
| Restricted Cash and Investments | 496,898 |
| Receivables | |
| Taxes | 12,688,807 |
| Accounts | 1,824 |
| Interest | 6,526 |
| Intergovernmental | 104,586 |
| Inventory | 8,497 |
| Nondepreciable Capital Assets | 267,092 |
| Depreciable Capital Assets, Net | <u>2,575,011</u> |
| Total Assets | <u>19,916,069</u> |
| Liabilities | |
| Accounts Payable | 173,105 |
| Accrued Wages and Benefits | 1,864,744 |
| Unearned Revenue | 8,661,209 |
| Long-Term Liabilities | |
| Due Within One Year | 306,381 |
| Due In More Than One Year | <u>1,676,885</u> |
| Total Liabilities | <u>12,682,324</u> |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 2,803,613 |
| Restricted For | |
| Special Revenue | 330,975 |
| Debt Service | 7,359 |
| Set-Aside | 496,898 |
| Unrestricted | <u>3,594,900</u> |
| Total Net Assets | \$ <u><u>7,233,745</u></u> |

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006**

| | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense)</u> |
|---|----------------------|---|---|--|
| | | <u>Charges for Services and Sales</u> | <u>Operating Grants and Contributions</u> | <u>Revenue and Changes in Net Assets</u> |
| Governmental Activities | | | | Governmental Activities |
| Instruction | | | | |
| Regular | \$ 8,938,470 | \$ 142,326 | \$ 151,501 | \$ (8,644,643) |
| Special | 2,321,963 | - | 713,003 | (1,608,960) |
| Vocational | 2,774 | - | 5,443 | 2,669 |
| Other | 503 | - | - | (503) |
| Support Services | | | | |
| Pupil | 717,537 | - | 19,607 | (697,930) |
| Instructional Staff | 1,044,692 | - | 83,830 | (960,862) |
| General Administration | 55,953 | - | - | (55,953) |
| School Administration | 1,801,561 | - | 1,000 | (1,800,561) |
| Fiscal | 606,417 | - | - | (606,417) |
| Business | 11,287 | - | - | (11,287) |
| Operations and Maintenance | 1,752,201 | - | - | (1,752,201) |
| Pupil Transportation | 1,211,712 | - | 4,485 | (1,207,227) |
| Central | 371,408 | - | 6,204 | (365,204) |
| Operation of Non-Instructional Services | 690,808 | 450,524 | 202,727 | (37,557) |
| Extracurricular Activities | 447,266 | 194,106 | - | (253,160) |
| Interest and Fiscal Charges | 3,461 | - | - | (3,461) |
| Total Governmental Activities | \$ 19,978,013 | \$ 786,956 | \$ 1,187,800 | (18,003,257) |

| | |
|-------------------------------------|---------------------|
| General Revenues | |
| Property Taxes Levied For | |
| General Purposes | 12,592,810 |
| Special Revenue Purposes | 360,000 |
| Grants and Entitlements Not | |
| Restricted to Specific Programs | 5,476,891 |
| Investment Earnings | 179,909 |
| Refunds and Reimbursements | 51,316 |
| Other Revenues | 273,203 |
| Total General Revenues | 18,934,129 |
| Change in Net Assets | 930,872 |
| Net Assets Beginning of Year | 6,302,873 |
| Net Assets End of Year | \$ 7,233,745 |

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006**

| | General | Other Governmental Funds | Total Governmental Funds |
|--|----------------------------|---|---|
| Assets | | | |
| Equity in Pooled Cash and Investments | \$ 3,012,182 | \$ 754,646 | \$ 3,766,828 |
| Restricted Cash and Investments | 496,898 | - | 496,898 |
| Receivables | | | |
| Taxes | 12,688,807 | - | 12,688,807 |
| Accounts | 1,824 | - | 1,824 |
| Interest | 6,526 | - | 6,526 |
| Intergovernmental | - | 104,586 | 104,586 |
| Interfund | 2,390 | 63,780 | 66,170 |
| Inventory | - | 8,497 | 8,497 |
| | Total Assets | Total Assets | Total Assets |
| | \$ 16,208,627 | \$ 931,509 | \$ 17,140,136 |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts Payable | \$ 4,563 | \$ 168,542 | \$ 173,105 |
| Accrued Wages and Benefits | 1,608,356 | 256,388 | 1,864,744 |
| Compensated Absences | 102,669 | - | 102,669 |
| Interfund Payable | 23,651 | 42,519 | 66,170 |
| Deferred Revenue | 9,357,487 | 104,586 | 9,462,073 |
| | Total Liabilities | Total Liabilities | Total Liabilities |
| | 11,096,726 | 572,035 | 11,668,761 |
| Fund Balances | | | |
| Reserved for Encumbrances | 57,057 | 13,974 | 71,031 |
| Reserved for Inventory | - | 8,497 | 8,497 |
| Reserved for Property Tax Advances | 3,331,320 | - | 3,331,320 |
| Reserved for Set-Aside | 496,898 | - | 496,898 |
| Unreserved, Undesignated, Reported In | | | |
| General Fund | 1,226,626 | - | 1,226,626 |
| Special Revenue Funds | - | 329,644 | 329,644 |
| Debt Service Funds | - | 7,359 | 7,359 |
| | Total Fund Balances | Total Fund Balances | Total Fund Balances |
| | 5,111,901 | 359,474 | 5,471,375 |
| Total Liabilities and Fund Balances | \$ 16,208,627 | \$ 931,509 | \$ 17,140,136 |

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2006**

| | | |
|--|--------------------|--------------------------------|
| Total Governmental Fund Balance | \$ | 5,471,375 |
| 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 | | 2,842,103 |
| Other Long-Term Assets Are Not Available To Pay For Current Period Expenditures and, Therefore, Are Deferred in the Funds | | |
| Delinquent Property Taxes | \$ 696,278 | |
| Intergovernmental | <u>104,586</u> | |
| | | 800,864 |
| 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 | <u>(1,842,107)</u> | |
| | | (1,842,107) |
| Long-Term Liabilities, Are Not Due and Payable in the Current Period and, Therefore, Are Not Reported in the Funds | | <u>(38,490)</u> |
| Net Assets of Governmental Activities | \$ | <u><u>7,233,745</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, 2006

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---|---|
| Revenues | | | |
| Taxes | \$ 12,291,844 | \$ 360,000 | \$ 12,651,844 |
| Tuition and Fees | 142,325 | - | 142,325 |
| Investment Earnings | 177,784 | 2,125 | 179,909 |
| Intergovernmental | 5,523,876 | 1,086,005 | 6,609,881 |
| Extracurricular Activities | 74,495 | 119,611 | 194,106 |
| Charges for Services | - | 450,524 | 450,524 |
| Other Revenues | 116,862 | 207,662 | 324,524 |
| Total Revenues | <u>18,327,186</u> | <u>2,225,927</u> | <u>20,553,113</u> |
| Expenditures | | | |
| Current | | | |
| Instruction | | | |
| Regular | 8,325,980 | 348,264 | 8,674,244 |
| Special | 1,217,405 | 1,026,676 | 2,244,081 |
| Vocational | - | 2,774 | 2,774 |
| Support Services | | | |
| Pupil | 659,617 | 51,042 | 710,659 |
| Instructional Staff | 961,876 | 57,163 | 1,019,039 |
| General Administration | 54,597 | - | 54,597 |
| School Administration | 1,761,298 | 1,000 | 1,762,298 |
| Fiscal | 594,505 | - | 594,505 |
| Business | 9,591 | - | 9,591 |
| Operations and Maintenance | 1,675,707 | - | 1,675,707 |
| Pupil Transportation | 954,454 | - | 954,454 |
| Central | 402,202 | 5,591 | 407,793 |
| Operation of Non-Instructional Services | 26,837 | 637,910 | 664,747 |
| Extracurricular Activities | 244,019 | 129,598 | 373,617 |
| Debt Service | | | |
| Principal Retirement | 75,198 | 31,557 | 106,755 |
| Interest and Fiscal Charges | 2,445 | 1,084 | 3,529 |
| Total Expenditures | <u>16,965,731</u> | <u>2,292,659</u> | <u>19,258,390</u> |
| Excess of Revenues Over (Under) Expenditures | <u>1,361,455</u> | <u>(66,732)</u> | <u>1,294,723</u> |
| Other Financing Sources (Uses) | | | |
| Transfers In | - | 169,365 | 169,365 |
| Transfers (Out) | (161,489) | (7,876) | (169,365) |
| Total Other Financing Sources (Uses) | <u>(161,489)</u> | <u>161,489</u> | <u>-</u> |
| Net Change in Fund Balance | 1,199,966 | 94,757 | 1,294,723 |
| Fund Balance Beginning of Year | <u>3,911,935</u> | <u>264,717</u> | <u>4,176,652</u> |
| Fund Balance End of Year | <u>\$ 5,111,901</u> | <u>\$ 359,474</u> | <u>\$ 5,471,375</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, 2006**

| | | |
|---|-----------|------------------------------|
| Net Change in Fund Balance - Total Governmental Funds | \$ | 1,294,723 |
| <p>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because</p> <p>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</p> | | |
| Capital Assets Used in Governmental Activities | \$ | 167,740 |
| Depreciation Expense | | <u>(490,278)</u> |
| | | (322,538) |
| <p>Revenues in the Statement of Activities That Do Not Provide Current Financial Resources Are Not Reported As Revenues in the Funds</p> | | |
| Delinquent Property Taxes | \$ | 300,963 |
| Intergovernmental | | <u>54,809</u> |
| | | 355,772 |
| <p>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</p> | | |
| | | 106,755 |
| <p>In the Statement of Activities, Interest Expense is Accrued When Incurred. Whereas, in Governmental Funds an Interest Expenditure is Reported When Due</p> | | |
| | | 68 |
| <p>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</p> | | |
| Compensated Absences | | <u>(503,908)</u> |
| | | <u>(503,908)</u> |
| Change in Net Assets of Governmental Activities | \$ | <u><u>930,872</u></u> |

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006**

| | Private Purpose Trust | Agency |
|---------------------------------------|--------------------------------------|------------------|
| Assets | | |
| Equity in Pooled Cash and Investments | \$ 79,802 | \$ <u>22,691</u> |
| Liabilities | | |
| Other Liabilities | - | \$ <u>22,691</u> |
| Net Assets | | |
| Held in Trust | \$ 79,802 | |

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2006**

| | | Private Purpose Trust |
|---|----|--------------------------------------|
| Additions | | |
| Donations | \$ | 14,088 |
| Investment Earnings | | 2,941 |
| | | <hr/> |
| Total Additions | | 17,029 |
| Deductions | | |
| Scholarships | | 13,589 |
| | | <hr/> |
| Change in Net Assets | | 3,440 |
| Net Assets Beginning of Year | | 76,362 |
| | | <hr/> |
| Net Assets End of Year | \$ | <u>79,802</u> |

See accompanying notes.

**THREE RIVERS LOCAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006**

NOTE 1 - DESCRIPTION OF THE DISTRICT

The Three Rivers Local School District, (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 102 noncertificated personnel and 142 certified teaching and administrative personnel to provide services to students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Measurement Focus

Government-Wide Financial Statements

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

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

Nonexchange 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 nonexchange 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, 2006, but which were levied to finance fiscal year 2007 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.

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met because such amounts have not yet been earned.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 deposit and repurchase agreements are reported at cost.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2006 credited to the General Fund amounted to \$177,784 and \$2,125 credited to other governmental funds.

Inventory

Inventory is presented at the lower of cost, determined by the first-in, first-out method, or market, and is expended/expensed when used. Inventory consists of food held for resale and consumable supplies.

Capital Assets

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

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

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

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

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.

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)

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide Statement of Activities. The interfund services provided and used are not eliminated in the process of consolidation.

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 indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property taxes, supplies inventory and set-asides.

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

Restricted Assets

Restricted assets in the General Fund represent equity in pooled cash and investments set-aside to establish a textbook, capital maintenance and 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

The District incurred the following violations:

Budgetary Activity

- *Appropriation Exceeded Estimated Resources* - Ohio Revised Code, Section 5705.39 (see Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Schedule of Findings and Responses)

Fund Balances

- *Deficit Fund Balances* - Ohio Revised Code, Section 5705.10 (see Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Schedule of Findings and Responses)
- *Cash Journal Was Not Being Maintained* - Ohio Administrative Code, Section 117-2-02(D) (see Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Schedule of Findings and Responses)
- *Inadequate Independent Oversight of Disbursement Activity* - Ohio Revised Code, Section 5705.41(D) (see Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Schedule of Findings and Responses)
- *Interest Income Not Allocated According to Board Designation* - Ohio Revised Code, Section 3315.01 (see Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Schedule of Findings and Responses)
- *Late Filing of Annual Report* - Ohio Revised Code, Section 117.38 (see Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Schedule of Findings and Responses)

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 combined balance sheet as "Equity in Pooled Cash and Investments".

State statute requires the classification of monies held by the District into three categories:

Active Deposits

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 withdrawals on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive Deposits

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

Interim Deposits

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are 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 and interest by the United States;
2. Bonds, notes, debentures or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) and (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;

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

6. The State Treasurer's investment pool (STAR Ohio).
7. Certain banker's acceptance and commercial paper notes for a period not to exceed 180 days from the purchase date 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 classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand

At year end, the District had \$5,300 in undeposited cash on hand which is included on the balance sheet of the District as part of equity in pooled cash and cash equivalents.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District'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, 2006, \$2,239,880 of the District's bank balance of \$2,435,294 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, 2006, the District had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Rating</u> |
|---|------------------------|---------------|
| Repurchase Agreement | \$1,767,649 | N/A (1) |
| STAR Ohio | 315,000 | |
| Stocks (Donated by a Private Individual) | <u>1,643</u> | |
| Total Fair Value | <u>\$2,084,292</u> | |

(1) Underlying securities are exempt

Interest Rate Risk

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy refers and adheres to Ohio Revised Code Section 135 on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 the highest credit quality rating issued by nationally recognized statistical rating organizations. Investments in STAR Ohio were rated AAAM by Standards & Poor's.

Concentration of Credit Risk

The District's investment policy allows investments in U.S. Agencies or Instrumentalities. The District has 15% invested in STAR Ohio, 85% invested in a repurchase agreement and less than 1% invested in stocks.

Custodial Credit Risk

Custodial credit risk for an investment is the risk that, in the event of 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. The District's \$1,767,649 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the District's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

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, 2006 are available to finance fiscal year 2007 operations. The amount available for advance can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property and public utility taxes that became measurable as of June 30, 2006. 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, 2006 was \$3,331,320 in the General Fund.

The assessed value, by property classification, upon which taxes collected in 2006 were based is as follows:

| | |
|--------------------------------------|--------------------------|
| Tangible and Public Utility Personal | \$146,000,000 |
| Real Estate | <u>219,190,000</u> |
| Total Assessed Property Value | <u>\$365,190,000</u> |

NOTE 6 - RECEIVABLES

Receivables at year end consisted of taxes, accounts, interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. Intergovernmental receivables as of June 30, 2006 consisted of \$1,090 and \$103,496 in federal subsidies and grants, respectively.

NOTE 7 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|----------------------|--------------|-----------|-------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 267,092 | \$ - | \$ - | \$ 267,092 |
| Capital Assets, Being Depreciated | | | | |
| Buildings and Improvements | 8,868,322 | 24,931 | - | 8,893,253 |
| Transportation | 1,552,253 | - | - | 1,552,253 |
| Equipment and Fixtures | 2,041,837 | 142,809 | - | 2,184,646 |
| Totals at Historical Cost | 12,729,504 | 167,740 | - | 12,897,244 |
| Less Accumulated Depreciation | | | | |
| Buildings and Improvements | 7,069,472 | 178,529 | - | 7,248,001 |
| Transportation | 1,160,224 | 119,592 | - | 1,279,816 |
| Equipment and Fixtures | 1,335,167 | 192,157 | - | 1,527,324 |
| Total Accumulated Depreciation | 9,564,863 | 490,278 | - | 10,055,141 |
| Governmental Activities Capital Assets, Net | \$ 3,164,641 | \$ (322,538) | \$ - | \$ 2,842,103 |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|------------|
| Instruction | |
| Regular | \$ 164,057 |
| Special | 30,249 |
| Other Instruction | 503 |
| Support Services | |
| Pupil | 5,075 |
| Instructional Staff | 24,619 |
| General Administration | 1,356 |
| School Administration | 4,023 |
| Fiscal | 13,955 |
| Business | 1,696 |
| Operations and Maintenance | 17,187 |
| Pupil Transportation | 123,011 |
| Central | 7,145 |
| Operation of Non-Instructional Services | 23,753 |
| Extracurricular Activities | 73,649 |
| Total Depreciation Expense | \$ 490,278 |

NOTE 8 - 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 2006, 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.

NOTE 8 - RISK MANAGEMENT (Continued)

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 9 - 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 or by calling 800-878-5853. It is also posted on SERS' website, www.ohsers.org, under forms and publications.

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, which includes 10.58% of annual covered salary that was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's contributions to SERS for the years ended June 30, 2006, 2005 and 2004 were \$380,400, \$360,372 and \$337,572, respectively; 48% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004.

State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer defined benefit pension plan. STRS provides basic retirement benefits, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Authority to establish and amend benefits is provided by State Statute per Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 Broad Street, Columbus, Ohio 43215-3771, by calling (614) 227-4090 or by visiting the STRS Ohio website at www.strsoh.org.

NOTE 9 - PENSION PLANS (Continued)

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001 were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for 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, 2006, 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, 2006, 2005, and 2004 were \$108,458, \$188,033 and \$176,885, respectively; 100% has been contributed for fiscal years 2006, 2005 and 2004.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of twelve months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

NOTE 10 - 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 provisions 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.

NOTE 10 - POST EMPLOYMENT BENEFITS (Continued)

STRS retirees who participated in the DB or combined plans 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, 2006, the STRS Board allocated employer contributions equal to 1% of covered payroll to the health care reserve fund. For the District, this amount equaled \$7,747 for fiscal year 2006.

STRS pays health care benefits from the health care stabilization fund. At June 30, 2006, the balance in the fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 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, 2006, employer contributions to fund health care benefits were 3.42% of covered payroll, a decrease of 0.01% from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2% of each employer's SERS salaries. For the 2006 fiscal year, the District paid \$92,926 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, 2006 (the latest information available), were \$158,751,000. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants currently receiving health care benefits.

NOTE 11 - LONG-TERM LIABILITIES

The changes in the District's long-term obligations during fiscal year 2006 were as follows:

| | Principal Outstanding July 1, 2005 | Additions | Reductions | Principal Outstanding June 30, 2006 | Amounts Due in One Year |
|---------------------------|--|------------------|--------------------|---|-------------------------------|
| Governmental Activities | | | | | |
| Energy Conservation Notes | \$ 31,557 | \$ - | \$ (31,557) | \$ - | \$ - |
| Capital Lease | <u>113,688</u> | <u>-</u> | <u>(75,198)</u> | <u>38,490</u> | <u>38,490</u> |
| Total Long-Term Debt | 145,245 | - | (106,755) | 38,490 | 38,490 |
| Compensated Absences | <u>1,543,746</u> | <u>766,181</u> | <u>(365,151)</u> | <u>1,944,776</u> | <u>267,891</u> |
| Total | <u>\$1,688,991</u> | <u>\$766,181</u> | <u>\$(471,906)</u> | <u>\$1,983,266</u> | <u>\$306,381</u> |

NOTE 11 - LONG-TERM LIABILITIES (Continued)

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

NOTE 12 - CAPITAL LEASE

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 2006.

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.

| Year Ended <u>June 30,</u> | Long-Term <u>Debt</u> |
|---|--------------------------|
| 2007 | \$38,822 |
| Less Amount Representing Interest | <u>(332)</u> |
| Present Value of Minimum Lease Payments | <u>\$38,490</u> |

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

| | |
|-----------|------------------|
| Equipment | <u>\$221,940</u> |
|-----------|------------------|

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

Hamilton/Clermont Cooperative Association

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

The individual HCCA members are not considered participants having an equity interest as defined by GASB Statement 14, since members have no right to any assets of HCCA. Separate financial statements for HCCA can be obtained from the HCCA administrative offices at 7615 Harrison Avenue, Cincinnati, Ohio 45231.

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

Great Oaks Institute of Technology and Career Development

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

NOTE 14 - CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

Litigation

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

NOTE 15 - REQUIRED SET-ASIDES

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

| | <u>Textbooks</u> | <u>Capital Improvements</u> | <u>Budget Stabilization</u> |
|---|----------------------|---------------------------------|---------------------------------|
| Set-Aside Balance as of June 30, 2005 | \$ (39,320) | \$ 283,883 | \$182,210 |
| Current Year Set-Aside Requirement | 284,256 | 284,256 | - |
| Less Qualifying Disbursements | <u>(180,405)</u> | <u>(317,982)</u> | <u>-</u> |
| Total | <u>\$ 64,531</u> | <u>\$ 250,157</u> | <u>\$182,210</u> |
| Restricted Cash Balance as of June 30, 2006 | <u>\$ 64,531</u> | <u>\$ 250,157</u> | <u>\$182,210</u> |
| Balance Carried to Fiscal Year 2007 | <u>\$ 64,531</u> | <u>\$ 250,157</u> | <u>\$182,210</u> |

NOTE 15 - REQUIRED SET-ASIDES (Continued)

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

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

NOTE 16 - INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2006 consisted of the following interfund receivables, interfund payables, transfers in and transfers out:

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------|---------------------------------|------------------------------|-------------------------|--------------------------|
| General Fund | \$ 2,390 | \$23,651 | \$169,365 | \$161,489 |
| Other Governmental Funds | <u>63,780</u> | <u>42,519</u> | <u>-</u> | <u>7,876</u> |
| Total All Funds | <u>\$66,170</u> | <u>\$66,170</u> | <u>\$169,365</u> | <u>\$169,365</u> |

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

NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries"; GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

Statement No. 42 establishes accounting and financial standards for impairment of capital assets, and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing and reporting liabilities and expenses/expenditures related to all termination benefits without limitation as to the period of time during which the benefits are offered.

There was no effect on fund balance/net assets as a result of the implementation of these new standards.

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, 2006

| | General Fund | | | |
|---|----------------------------|-------------------------|---------------------|---------------------------------------|
| | Original Budget | Final Budget | Actual | Variance from Final Budget |
| Revenues | | | | |
| Taxes | \$ 9,061,556 | \$ 12,100,931 | \$ 13,682,700 | \$ 1,581,769 |
| Tuition and Fees | 95,273 | 127,229 | 143,860 | 16,631 |
| Investment Earnings | 113,418 | 151,460 | 171,258 | 19,798 |
| Intergovernmental | 3,658,263 | 4,885,296 | 5,523,876 | 638,580 |
| Extracurricular Activities | 49,335 | 65,883 | 74,495 | 8,612 |
| Other Revenues | 82,332 | 109,947 | 124,319 | 14,372 |
| Total Revenues | 13,060,177 | 17,440,746 | 19,720,508 | 2,279,762 |
| Expenditures | | | | |
| Current | | | | |
| Instruction | | | | |
| Regular | 8,628,001 | 8,855,672 | 8,403,942 | 451,730 |
| Special | 1,358,424 | 1,952,345 | 1,323,147 | 629,198 |
| Support Services | | | | |
| Pupil | 677,817 | 832,775 | 660,215 | 172,560 |
| Instructional Staff | 922,326 | 625,669 | 898,374 | (272,705) |
| General Administration | 60,016 | 54,378 | 58,457 | (4,079) |
| School Administration | 2,022,898 | 2,091,709 | 1,970,366 | 121,343 |
| Fiscal | 610,461 | 515,393 | 594,608 | (79,215) |
| Business | 9,847 | 51,678 | 9,591 | 42,087 |
| Operations and Maintenance | 1,802,939 | 1,818,953 | 1,756,119 | 62,834 |
| Pupil Transportation | 1,072,877 | 1,277,666 | 1,045,016 | 232,650 |
| Central | 413,213 | 484,410 | 402,482 | 81,928 |
| Operation of Non-Instructional Services | 29,299 | 25,973 | 28,538 | (2,565) |
| Extracurricular Activities | 250,858 | 253,106 | 244,344 | 8,762 |
| Capital Outlay | - | 9,175 | - | 9,175 |
| Debt Service | | | | |
| Principal Retirement | 75,198 | 75,198 | 75,198 | - |
| Interest and Fiscal Charges | 4,515 | 2,445 | 2,445 | - |
| Total Expenditures | 17,938,689 | 18,926,545 | 17,472,842 | 1,453,703 |
| Excess of Revenues Over (Under) Expenditures | (4,878,512) | (1,485,799) | 2,247,666 | 3,733,465 |
| Other Financing Sources (Uses) | | | | |
| Advances In | 17 | 22 | 25 | 3 |
| Advances (Out) | (41,199) | - | (40,129) | (40,129) |
| Transfers (Out) | (165,794) | (89,253) | (161,489) | (72,236) |
| Total Other Financing Sources (Uses) | (206,976) | (89,231) | (201,593) | (112,362) |
| Net Change in Fund Balance | (5,085,488) | (1,575,030) | 2,046,073 | 3,621,103 |
| Fund Balance Beginning of Year (Includes Prior Year Encumbrances Appropriated) | 1,405,745 | 1,405,745 | 1,405,745 | - |
| Fund Balance End of Year | \$ (3,679,743) | \$ (169,285) | \$ 3,451,818 | \$ 3,621,103 |

THREE RIVERS LOCAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2006

NOTE 1 - 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 (the Board) 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.

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 2006.

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

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

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

NOTE 1 - 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 | \$ 1,199,966 |
| Net Adjustment for Revenue Accruals | 1,393,347 |
| Net Adjustment for Expenditure Accruals | (471,449) |
| Encumbrances | <u>(75,791)</u> |
| Budget Basis | <u><u>\$ 2,046,073</u></u> |

OTHER INFORMATION



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

Board of Education
Three Rivers Local School District
Hamilton County, 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 as of and for the year ended June 30, 2006, which collectively comprise the Three Rivers Local School District's basic financial statements and have issued our report thereon dated February 3, 2009. 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 Three Rivers Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Three Rivers Local School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Three Rivers Local School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Three Rivers Local School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Three Rivers Local School District's financial statements that is more than inconsequential will not be prevented or detected by the Three Rivers Local School District's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting: Finding Number 2006-001.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Three Rivers Local School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider Finding Number 2006-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Three Rivers Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as Findings Number 2006-002, 2006-003, 2006-004, 2006-005, 2006-006 and 2006-007.

The Three Rivers Local School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Three Rivers Local School District's response and, accordingly, we express no opinion on it.

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

VonLehman & Company Inc.

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2006**

| |
|---|
| FINDINGS AND RESPONSES RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|---|

Internal Control Over Financial Reporting

| | |
|-----------------------|-----------------|
| Finding Number | 2006-001 |
|-----------------------|-----------------|

Material Weakness

1. *Lack of Independent Oversight Over Disbursement Activity* - Through the testing of cash disbursements, we noted inadequate internal controls and compliance issues over disbursement activity. This would permit a misappropriation of assets to go undetected. See the list of findings and responses noted on Finding Number 2006-005 in the "Compliance and Other Matters" section of this report. The District should have adequate procedures in place to ensure that all disbursements are properly authorized by someone other than the person responsible for making the disbursement.

School District Response: We agree with the finding and we are taking corrective actions to correct the deficiency.

Compliance and Other Matters

| | |
|-----------------------|-----------------|
| Finding Number | 2006-002 |
|-----------------------|-----------------|

Budgetary Activity

2. *Appropriation Exceeded Estimated Resources* - Ohio Revised Code, Section 5705.39, provides, in part, that total appropriations from each fund shall not exceed the total estimated resources. The following funds exceeded estimated resources:

- #018 - Public School Support Fund
- #019 - Spring Recognition Fund

School District Response: We agree with the finding and we are taking corrective actions to correct the deficiency.

**FINDINGS AND RESPONSES RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)**

| | |
|-----------------------|-----------------|
| Finding Number | 2006-003 |
|-----------------------|-----------------|

Fund Balances

3. *Deficit Fund Balances* - Ohio Revised Code, Section 5705.10, requires that appropriations do not exceed official or amended estimated resources. These deficit balances indicate that cash from other funds has been used to pay the obligations of these funds. This is a violation of Ohio Revised Code, Section 5705.10, which also requires that money paid into a certain fund shall be used only for the purpose for which the fund is established. Certain special revenue funds had negative fund balances as of June 30, 2006 as follows:

| | |
|---------------------------------|----------|
| Special Revenue Funds | |
| Disadvantaged Pupil Impact Fund | \$16,226 |
| Title VIB Preschool | 11,272 |
| Title I | 79,046 |
| Title VI | 22,589 |
| Drug Free Schools | 15,434 |
| Classroom Size Reduction | 14,998 |

School District Response: We agree with the finding and we are taking corrective actions to correct the deficiency.

| | |
|-----------------------|-----------------|
| Finding Number | 2006-004 |
|-----------------------|-----------------|

Fund Balances

4. *Cash Journal Was Not Being Maintained* - Ohio Administrative Code, Section 117-2-02(D), requires that all local public offices maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides and should include the following: a cash journal, receipts ledger and appropriation ledger. The District did not maintain a cash journal.

School District Response: We agree with the finding and we are taking corrective actions to correct the deficiency.

**FINDINGS AND RESPONSES RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)**

| | |
|-----------------------|-----------------|
| Finding Number | 2006-005 |
|-----------------------|-----------------|

Fund Balances

5. *Inadequate Independent Oversight of Disbursement Activity* - Ohio Revised Code, Section 5705.41(D), requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Through testing of cash disbursement, we noted the following;

- Confirming purchase orders used
- Payments made without proper invoice support
- Payment made in excess of purchase order
- Payment made without proper authorization
- Purchase orders not properly cancelled by the disbursement of funds

The District should implement procedures to ensure that all disbursements are properly appropriated, money is in the appropriate fund and free from encumbrances.

School District Response: We agree with the finding and we are taking corrective actions to correct the deficiency.

| | |
|-----------------------|-----------------|
| Finding Number | 2006-006 |
|-----------------------|-----------------|

Fund Balances

6. *Interest Income Not Allocated According to Board Designation* - Ohio Revised Code, Section 3315.01, states that the Board of Education of any school district may adopt a resolution requiring the Treasurer of the District to credit the earnings on investment to the fund from which the earnings arose, or any other fund of the District's as the Board specifies. Per the Treasurer, the resolution requires that 95% of earnings of investment be allocated to the General Fund and 5% to the Food Service Fund. However, per the financial statements, 99% is allocated to the General Fund and 1% to the Food Service Fund. We recommend that the resolution be changed or the percentage of allocation be changed to agree with the resolution.

School District Response: We agree with the finding and we are taking corrective actions to correct the deficiency.

**FINDINGS AND RESPONSES RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)**

Finding Number

2006-007

Fund Balances

7. *Late Filing of Annual Report* - Ohio Revised Code, Section 117.38, states that cash basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. We noted that the fiscal year 2006 annual reports were not filed within 60 days. We recommend that the District submit the annual reports on a timely basis.

School District Response: We agree with the finding and we are taking corrective actions to correct the deficiency.



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

Board of Education
Three Rivers Local School District
Hamilton County, Ohio

Compliance

We have audited the compliance of the Three Rivers Local School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The Three Rivers Local School District's major federal programs are identified in the summary of the 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 Three Rivers Local School District's management. Our responsibility is to express an opinion on the Three Rivers Local School District's compliance based on our audit.

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

In our opinion, the Three Rivers Local School 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, 2006.

Internal Control Over Compliance

The Three Rivers Local School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Three Rivers Local School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Three Rivers Local School District's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Three Rivers Local School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Three Rivers Local School District's internal control. We consider the deficiency in the internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding Number 2006-001, to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Three Rivers Local School District's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Three Rivers Local School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Three Rivers Local School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, 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.

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006**

| <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 | \$ 39,634 | \$ 39,634 |
| National School Lunch Program | 10.555 | <u>146,556</u> | <u>146,556</u> |
| Total U.S. Department of Agriculture | | <u>186,190</u> | <u>186,190</u> |
| <u>U.S. Department of Education</u> | | | |
| (Passed Through Ohio Department of Education) | | | |
| Special Education Cluster | | | |
| Title VI - B Grant | 84.027 | 464,762 | 443,147 |
| Grants to Local Education Agencies (ESEA Title I) | 84.010 | 233,167 | 233,167 |
| Vocational Education | 84.048 | 5,443 | 1,857 |
| Safe and Drug Free Schools | 84.186 | 13,902 | 13,902 |
| Innovative Programs Title V | 84.298 | 23,180 | 23,180 |
| Technology Title II | 84.318 | 8,773 | 8,773 |
| Improving Teacher Quality | 84.367 | <u>90,379</u> | <u>90,379</u> |
| Total U.S. Department of Education | | <u>839,606</u> | <u>814,405</u> |
| Total Federal Awards | | <u>\$1,025,796</u> | <u>\$1,000,595</u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - 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 2 - 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.

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006**

SECTION I - SUMMARY OF AUDITORS' RESULTS

| FINANCIAL STATEMENTS | |
|--|---|
| Type of Financial Statement Opinion | Unqualified |
| Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| FEDERAL AWARDS | |
| Were there any material internal control weakness conditions reported for major federal programs? | Yes |
| 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 CFDA 84.010 Title I |
| Dollar Threshold: Type A / B Programs | Type A: > \$300,000 Type B: all others |
| Low Risk Auditee? | No |

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)**

SECTION II - FINANCIAL STATEMENTS FINDINGS AND QUESTIONED COSTS

See Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards in the Other Information section of this report for a complete list of financial statements findings.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|-----------------------|-----------------|
| Finding Number | 2006-001 |
|-----------------------|-----------------|

Material Weakness

1. *Lack of Independent Oversight Over Disbursement Activity* - Through the testing of cash disbursements, we noted inadequate internal controls and compliance issues over disbursement activity. This would permit a misappropriation of assets to go undetected. See the list of findings and responses noted on Finding Number 2006-005 in the Compliance and Other Matters section of the Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The District should have adequate procedures in place to ensure that all disbursements are properly authorized by someone other than the person responsible for making the disbursement.

School District Response: We agree with the finding and we are taking corrective action to correct the deficiency.

**THREE RIVERS LOCAL SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2005**

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
JULY 28, 2009**