



**Auditor of State
Betty Montgomery**

**TRI COUNTY NORTH LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Tri County North Local School District
Preble County
436 North Commerce Street
Lewisburg, Ohio 45338

To the Board of Education:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

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 Tri-County North Local School District, Preble County, Ohio, as of June 30, 2004, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Also as described in Note 3, during the year ended June 30, 2004, the School District reclassified activity formerly reported in the enterprise funds and as a business type activity to special revenue funds and governmental activity.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, 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.

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

Betty Montgomery
Auditor of State

April 12, 2005

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$139,446, which represents a 0.9 percent decrease from 2003.
- General revenues accounted for \$7,422,208 in revenue or 85.3 percent of all revenues. Program specific revenues in the form of charges for services, operating and capital grants, contributions, and interest accounted for \$1,276,393 or 14.7 percent of total revenues of \$8,698,601.
- The School District had \$8,838,047 in expenses; only \$1,276,393 of these expenses were offset by program specific charges for services, operating and capital grants, contributions, and interest. General revenues (primarily taxes and entitlements) were \$7,422,208.
- Among major funds, the General Fund had \$7,077,118 in revenues and \$7,369,049 in expenditures. The General Fund's balance decreased \$454,652 over 2003.

Using The Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Tri-County North Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other nonmajor funds presented in total in one column. The major funds for the Tri County North Local School District are the General Fund and the Permanent Improvement Capital Projects Fund.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility condition, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District only reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the 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 School 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 School District's only fiduciary funds are a private purpose trust fund and an agency fund. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

The School District as a Whole

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

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

Tri County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 1
Net Assets

	2003	2004
Assets		
Current Assets	\$11,364,621	\$10,848,954
Capital Assets	11,599,756	11,518,594
Total Assets	22,964,377	22,367,548
Liabilities		
Current Liabilities	4,791,264	4,627,811
Long-Term Liabilities	2,219,866	1,925,936
	7,011,130	6,553,747
Net Assets		
Invested in Capital Assets	9,554,756	9,738,594
Restricted	1,855,807	2,007,005
Unrestricted	4,542,684	4,068,202
Total Net Assets	\$15,953,247	\$15,813,801

Total assets of governmental activities decreased by \$596,829, as capital assets decreased \$81,162. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, decreased by \$474,482. This decrease was primarily due to an increase in salaries and benefits, the most significant expenses of the School District.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the School District has prepared financial statements following *GASB Statement No. 34*, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior-year information is available, a comparative analysis of district-wide data will be presented.

Tri County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Changes in Net Assets

	2004
Revenues	
Program Revenues:	
Charges for Services	\$505,777
Operating Grants, Contributions, and Interest	733,972
Capital Grants, Contributions, and Interest	36,644
Total Program Revenues	1,276,393
General Revenues:	
Property Taxes Levied for:	
General Purposes	3,156,951
Debt Service	282,555
Other Purposes	72,017
Capital Outlay	142,595
Grants and Entitlements not Restricted to Specific Programs	3,702,922
Investment Earnings	99,006
Decrease in Fair Value of Investments	(72,706)
Gifts and Donations	30,698
Miscellaneous	8,170
Total General Revenues	7,422,208
Total Revenues	8,698,601
 Program Expenses	
Instruction:	
Regular	3,686,462
Special	950,675
Vocational	144,618
Support Services:	
Pupils	470,069
Instructional Staff	329,780
Board of Education	18,054
Administration	903,592
Fiscal	178,845
Operation and Maintenance of Plant	843,396

(continued)

Tri County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 2
Changes in Net Assets (continued)

Pupil Transportation	\$461,082
Central	30,940
Operation of Non-Instructional Services	353,290
Extracurricular Activities	355,500
Interest and Fiscal Charges	111,744
Total Expenses	<u>8,838,047</u>
Decrease in Net Assets	<u><u>(\$139,446)</u></u>

Governmental Activities

The unique nature of taxes in Ohio creates the need to routinely seek voter approval for the School District's operations. Property taxes made up 42 percent of revenues for governmental activities for the Tri-County North Local School District for fiscal year 2004.

Instruction comprises 54.1 percent of School District expenses. Support services expenses make up 36.6 percent of the expenses.

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

Comparisons to 2003 have not been made because the data is not available.

Tri County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 3
Governmental Activities

	<u>Total Cost of Services 2004</u>	<u>Net Cost of Services 2004</u>
Instruction:		
Regular	\$3,686,462	\$3,472,572
Special	950,675	603,275
Vocational	144,618	125,611
Support Services:		
Pupils	470,069	389,027
Instructional Staff	329,780	265,219
Board of Education	18,054	18,054
Administration	903,592	897,484
Fiscal	178,845	178,845
Operation and Maintenance of Plant	843,396	806,752
Pupil Transportation	461,082	460,195
Central	30,940	20,648
Operation of Non-Instructional Services	353,290	3,484
Extracurricular Activities	355,500	208,744
Interest and Fiscal Charges	111,744	111,744
Total Expenses	<u>\$8,838,047</u>	<u>\$7,561,654</u>

The dependence upon tax revenues is apparent. Over 88 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is 85.6 percent.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$8,608,813 and expenditures of \$9,012,426. The net change in fund balance for the General Fund was (\$454,652), which was primarily due to a significant increase in salaries and benefits.

General Fund Budgeting Highlights

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

Tri County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

During the course of the fiscal year 2004, final appropriations decreased \$292,980 to \$7,409,562 from original appropriations of \$7,702,542 mainly because the School District has historically held conservative ways of spending dollars so that needs can be met with the interest of the taxpayer in mind. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. The School District has the basic belief that it should be prepared to operate in the best manner to meet the needs of those who are being educated. In order to do so, appropriations are made in excess of the minimum required funds to allow for variances in individual programs that are beneficial for the student body, yet economically sound.

For the General Fund, the final budgeted revenue estimate was \$7,202,086, a \$49,842 increase from the original budgeted revenue estimate of \$7,152,244. This difference was mainly in intergovernmental revenue, because the prior year's collection on State foundation was used as the indicator of payment rather than using the new formulas provided under law. This is a conservative approach since the State could make adjustments based on budget reductions.

Capital Assets

At the end of the fiscal year 2004, the School District had \$11,518,594 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles.

Table 4 shows fiscal year 2004 balances compared to 2003.

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

	2003	2004
Land	\$122,305	\$428,605
Land Improvements	0	7,808
Buildings and Improvements	9,860,873	9,591,459
Furniture, Fixtures and Equipment	1,210,777	1,109,610
Vehicles	405,801	381,112
Totals	\$11,599,756	\$11,518,594

Overall capital assets decreased \$81,162 from fiscal year 2003 to fiscal year 2004. Increases in capital assets (land, land improvements, buildings and improvements, and furniture, fixtures and equipment) were not enough to offset the depreciation expense for the year.

For more information on capital assets, see Note 9 of the Basic Financial Statements.

Debt Administration

At June 30, 2004 the School District had \$1,780,000 in debt outstanding, of which \$275,000 is due within one year. Table 5 summarizes the debt outstanding:

Table 5
 Outstanding Debt, at Fiscal Year End
 Governmental Activities

	2003	2004
General Obligation Bonds	\$855,000	\$735,000
OASBO Notes	1,190,000	1,045,000
	\$2,045,000	\$1,780,000

On August 1, 1986, Tri-County North Local School District issued \$2,815,000 in voted general obligation bonds for the purpose of the acquisition, construction, reconstruction and other improvements to the school building. The bonds were issued for a twenty-three year period with final maturity at December 1, 2009.

The OASBO Notes were issued by the Rickenbacker Port Authority as part of the Ohio Association of School Business Officials Expanded Asset Pooled Financing Program. The Port Authority has entered into a trust agreement with Chase Manhattan Trust Company (the trustee) assigning payments to be received to the trustee. Therefore, the School District makes principal and interest payments to Chase Manhattan Trust Company. The School District is required to assign all of its rights to the Port Authority. The notes were issued April 25, 2002, for the purpose of constructing and improving school facilities and providing equipment, furnishings and site improvements. The debt will mature December 26, 2009.

At June 30, 2004, the School District's overall legal debt limitation was \$10,250,219 with an unvoted debt margin of \$126,202.

For more information on the School District's debt, see Note 14 of the Basic Financial Statements.

Current Financial Issues and Concerns

The recent developments of the Ohio General Assembly related to education finance are of great concern to the Board of Education and Administration of this School District. The legislature has effected a change in the State funding formula whereby declines in student enrollment are immediately translated into funding declines.

Resources from State and Federal sources are being cut while mandates are increasing. The problem that the School District is facing, now and in the future, is that the costs of basic and special education are increasing.

The School District has not anticipated any meaningful growth in State revenue due to the lack of response to Supreme Court decisions. Organization and staffing continue to be evaluated in response to these reductions. Legislative activities continue to provide for consequences detrimental to the financial well being of the School District. The Tri-County North Local School District is not alone in this budgetary crisis; over half of the school districts in Ohio are on the ballot for the same reason.

In August of 2004, the Tri-County North Local School District asked for support in the form of a 4.9 mill tax increase, which passed. It has been more than 10 years since the School District was on the ballot asking for new money, showing that the School District has been committed to financial excellence for many years. But, in order to balance the budget over the next several years, the School District chose to seek additional financial resources rather than reducing programs or services. In addition, the School District's system of financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Lynn Ferguson, Treasurer, at Tri-County North Local School District, 436 North Commerce Street, Lewisburg, Ohio 45338 or email at **tcbo_lf@swoca.net**.

Tri County North Local School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$6,600,949
Accounts Receivable	14,981
Accrued Interest Receivable	34,772
Intergovernmental Receivable	12,243
Inventory of Supplies and Materials	36,220
Property Taxes Receivable	4,149,789
Nondepreciable Capital Assets	428,605
Depreciable Capital Assets, Net	11,089,989
Total Assets	22,367,548
Liabilities:	
Accounts Payable	48,398
Accrued Wages and Benefits Payable	684,421
Intergovernmental Payable	249,880
Matured Compensated Absences Payable	2,574
Accrued Interest Payable	5,591
Deferred Revenue	3,636,947
Long Term Liabilities:	
Due Within One Year	303,534
Due In More Than One Year	1,622,402
Total Liabilities	6,553,747
Net Assets:	
Invested in Capital Assets, Net of Related Debt	9,738,594
Restricted for:	
Debt Service	695,724
Capital Outlay	623,409
Other Purposes	477,473
Set-Asides	210,399
Unrestricted	4,068,202
Total Net Assets	\$15,813,801

See Accompanying Notes to the Basic Financial Statements

Tri County North Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Total Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$3,686,462	\$119,248	\$94,642	\$0	(\$3,472,572)
Special	950,675	0	347,400	0	(603,275)
Vocational	144,618	0	19,007	0	(125,611)
Support Services:					
Pupils	470,069	0	81,042	0	(389,027)
Instructional Staff	329,780	0	64,561	0	(265,219)
Board of Education	18,054	0	0	0	(18,054)
Administration	903,592	0	6,108	0	(897,484)
Fiscal	178,845	0	0	0	(178,845)
Operation and Maintenance of Plant	843,396	0	0	36,644	(806,752)
Pupil Transportation	461,082	0	887	0	(460,195)
Central	30,940	0	10,292	0	(20,648)
Operation of Non-Instructional					
Services	353,290	239,773	110,033	0	(3,484)
Extracurricular Activities	355,500	146,756	0	0	(208,744)
Interest and Fiscal Charges	111,744	0	0	0	(111,744)
Total Governmental Activities	<u>\$8,838,047</u>	<u>\$505,777</u>	<u>\$733,972</u>	<u>\$36,644</u>	<u>(7,561,654)</u>

General Revenues:

Property Taxes Levied for:

General Purposes	3,156,951
Debt Service	282,555
Capital Outlay	142,595
Other Purposes	72,017
Grants and Entitlements not Restricted to Specific Programs	3,702,922
Investment Earnings	99,006
Decrease in Fair Value of Investments	(72,706)
Gifts and Donations	30,698
Miscellaneous	8,170
Total General Revenues	<u>7,422,208</u>

Change in Net Assets (139,446)

Net Assets Beginning of Year - (Note 3) 15,953,247

Net Assets End of Year \$15,813,801

See Accompanying Notes to the Basic Financial Statements

Tri County North Local School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$4,585,339	\$570,742	\$1,211,079	\$6,367,160
Receivables:				
Property Taxes	3,581,326	172,236	396,227	4,149,789
Accounts	871	0	14,110	14,981
Intergovernmental	3,095	0	9,148	12,243
Accrued Interest	34,273	499	0	34,772
Inventory of Supplies and Materials	26,898	0	9,322	36,220
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	233,789	0	0	233,789
Total Assets	\$8,465,591	\$743,477	\$1,639,886	\$10,848,954
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	\$27,407	\$2,594	\$18,397	\$48,398
Accrued Wages and Benefits Payable	636,632	0	47,789	684,421
Intergovernmental Payable	162,728	0	6,866	169,594
Matured Compensated Absences Payable	0	0	2,574	2,574
Deferred Revenue	3,556,162	169,611	403,830	4,129,603
Total Liabilities	4,382,929	172,205	479,456	5,034,590
Fund Balances:				
Reserved for Encumbrances	96,394	17,959	64,948	179,301
Reserved for Property Taxes	53,427	3,124	5,057	61,608
Reserved for Budget Stabilization	36,010	0	0	36,010
Reserved for Textbooks and Instructional Materials	174,389	0	0	174,389
Reserved for Bus Purchases	23,390	0	0	23,390
Unreserved:				
Designated for Budget Stabilization	262,536	0	0	262,536
Undesignated, Reported in:				
General Fund	3,436,516	0	0	3,436,516
Special Revenue Funds	0	0	423,228	423,228
Debt Service Fund	0	0	667,197	667,197
Capital Projects Funds	0	550,189	0	550,189
Total Fund Balances	4,082,662	571,272	1,160,430	5,814,364
Total Liabilities and Fund Balances	\$8,465,591	\$743,477	\$1,639,886	\$10,848,954

See Accompanying Notes to the Basic Financial Statements

Tri County North Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004

Total Governmental Fund Balance \$5,814,364

Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Land	428,605	
Land Improvements	529,488	
Buildings and Improvements	13,495,417	
Furniture, Fixtures, and Equipment	2,906,690	
Vehicles	884,238	
Accumulated Depreciation	(6,725,844)	
Total Capital Assets	11,518,594	11,518,594

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property Taxes Receivable	451,234	
Accrued Interest Receivable	28,762	
Accounts Receivable	12,660	
		492,656

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

General Obligation Bonds Payable	(735,000)	
OASBO Notes Payable	(1,045,000)	
Accrued Interest Payable	(5,591)	
Compensated Absences Payable	(145,936)	
Total Liabilities	(1,931,527)	(1,931,527)

Intergovernmental Payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.

Intergovernmental Payable		(80,286)
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Net assets of Governmental Activities \$15,813,801

See Accompanying Notes to the Basic Financial Statements

Tri County North Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$3,112,380	\$138,840	\$354,532	\$3,605,752
Tuition and Fees	66,563	0	29,949	96,512
Interest	70,244	32,269	916	103,429
Increase (Decrease) in Fair Value of Investments	(72,706)	4,375	0	(68,331)
Intergovernmental	3,871,137	14,076	550,765	4,435,978
Extracurricular Activities	0	0	146,756	146,756
Charges for Services	0	0	238,549	238,549
Gifts and Donations	13,270	0	17,428	30,698
Rent	11,300	0	0	11,300
Miscellaneous	4,930	0	3,240	8,170
Total Revenues	7,077,118	189,560	1,342,135	8,608,813
Expenditures:				
Current:				
Instruction:				
Regular	3,473,435	53,051	150,541	3,677,027
Special	760,884	0	185,428	946,312
Vocational	132,630	115	1,801	134,546
Support Services:				
Pupils	382,719	0	88,608	471,327
Instructional Staff	273,396	1,099	72,229	346,724
Board of Education	18,054	0	0	18,054
Administration	866,453	368	6,857	873,678
Fiscal	162,923	3,839	9,213	175,975
Operation and Maintenance of Plant	663,918	141,140	34,161	839,219
Pupil Transportation	423,862	211	443	424,516
Central	20,160	0	10,780	30,940
Operation of Non-Instructional Services	0	0	357,329	357,329
Extracurricular Activities	189,272	0	157,528	346,800
Capital Outlay	1,343	0	0	1,343
Debt Service:				
Principal Retirement	0	0	265,000	265,000
Interest and Fiscal Charges	0	916	111,720	112,636
Total Expenditures	7,369,049	200,739	1,451,638	9,021,426
Excess of Revenues Under Expenditures	(291,931)	(11,179)	(109,503)	(412,613)
Other Financing Sources (Uses):				
Transfers - In	0	0	162,721	162,721
Transfers - Out	(162,721)	0	0	(162,721)
Total Other Financing Sources (Uses)	(162,721)	0	162,721	0
Net Change in Fund Balance	(454,652)	(11,179)	53,218	(412,613)
Fund Balances at Beginning of Year - Restated Note 3	4,537,314	582,451	1,107,212	6,226,977
Fund Balances at End of Year	\$4,082,662	\$571,272	\$1,160,430	\$5,814,364

See Accompanying Notes to the Basic Financial Statements

Tri County North Local School District
 Reconciliation of Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds (\$412,613)

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

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

In the current period, these amounts are:

Capital Outlay	382,492	
Current Year Depreciation Expense	(463,654)	
Excess of Depreciation Expense over Capital Outlay		(81,162)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. These amounts consist of:

General Obligation Bond Principal Payments	120,000	
OASBO Note Principal Payments	145,000	
		265,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds, when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional amount of interest on the statement of activities is the result of the following:

Net Decrease in Accrued Interest Payable		892
--	--	-----

Some revenues that will not be collected for several months after the School District's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds.

Deferred revenues changed by these amounts:

Property Taxes	48,366	
Tuition and Fees	11,436	
Interest	28,762	
Charges for Services	1,224	
		89,788

Some items 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. These activities consist of:

Increase in Intergovernmental Payable	(30,281)	
Decrease in Compensated Absences	28,930	
		(1,351)

Change in Net Assets of Governmental Activities (\$139,446)

See Accompanying Notes to the Basic Financial Statements

Tri County North Local School District
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
Revenues:				
Property Taxes	\$3,223,003	\$3,180,389	\$3,180,389	\$0
Tuition and Fees	101,460	66,612	66,612	0
Interest	44,000	66,733	66,733	0
Intergovernmental	3,769,523	3,863,404	3,863,404	0
Gifts and Donations	12,948	13,270	13,270	0
Rent	0	11,300	11,300	0
Miscellaneous	1,310	378	378	0
Total Revenues	<u>7,152,244</u>	<u>7,202,086</u>	<u>7,202,086</u>	<u>0</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,516,491	3,454,211	3,454,211	0
Special	863,534	762,410	762,410	0
Vocational	143,017	127,515	127,515	0
Other	17,384	5,768	5,768	0
Support Services:				
Pupils	449,974	379,546	379,546	0
Instructional Staff	254,752	265,513	265,513	0
Board of Education	22,063	18,054	18,054	0
Administration	915,599	885,314	885,314	0
Fiscal	166,864	162,000	162,000	0
Operation and Maintenance of Plant	676,642	706,767	706,767	0
Pupil Transportation	453,081	431,666	431,666	0
Central	30,000	20,160	20,160	0
Extracurricular Activities	190,405	189,295	189,295	0
Capital Outlay	2,736	1,343	1,343	0
Total Expenditures	<u>7,702,542</u>	<u>7,409,562</u>	<u>7,409,562</u>	<u>0</u>
Excess of Revenues Under Expenditures	<u>(550,298)</u>	<u>(207,476)</u>	<u>(207,476)</u>	<u>0</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	4,200	6,616	6,616	0
Advances In	100,000	145,011	145,011	0
Advances Out	0	(142,547)	(142,547)	0
Transfers - Out	0	(162,721)	(162,721)	0
Total Other Financing Sources (Uses)	<u>104,200</u>	<u>(153,641)</u>	<u>(153,641)</u>	<u>0</u>
Net Change in Fund Balance	(446,098)	(361,117)	(361,117)	0
Fund Balance at Beginning of Year	5,018,239	5,018,239	5,018,239	0
Prior Year Encumbrances Appropriated	118,755	118,755	118,755	0
Fund Balance at End of Year	<u>\$4,690,896</u>	<u>\$4,775,877</u>	<u>\$4,775,877</u>	<u>\$0</u>

See Accompanying Notes to the Basic Financial Statements

Tri County North Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$14,103	\$61,871
Liabilities:		
Accounts Payable	0	\$1,382
Due to Students	0	60,489
Total Liabilities	0	\$61,871
Net Assets:		
Held in Trust for Scholarships	\$14,103	

See Accompanying Notes to the Basic Financial Statements

Tri County North Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	Private Purpose Trust
Additions:	
Interest	\$285
Deletions:	
	0
Change in Net Assets	285
Net Assets Beginning of Year	13,818
Net Assets End of Year	\$14,103

See Accompanying Notes to the Basic Financial Statements

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NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Tri County North Local School District (the "School District") was created from the northern half of the Twin Valley School District in 1983. The School District is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected five member Board form of government and provides educational services as mandated by State statute and federal guidelines. This Board of Education controls the School District's three instructional/support facilities.

Reporting Entity

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

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

The School District participates in three jointly governed organizations, two insurance purchasing pools and one shared risk pool. These organizations include the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Instructional Technology Association (SOITA), the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), the Ohio School Plan (OSP), and the Preble County Consortium (the "Consortium"), respectively. These organizations are presented in Notes 16, 17 and 18 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

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

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities that are governmental and those that are business-type. The School District, however, has no activities which are reported as business-type.

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

Fund Financial Statements:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The School District divides its funds into two categories: governmental and fiduciary.

Governmental Funds:

Governmental funds are those through which most governmental functions of the School District typically are financed. Governmental fund reporting focuses 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 are the School District's major governmental funds:

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

Permanent Improvement Fund - The Permanent Improvement Capital Projects Fund accounts for the acquisition, construction or improvement of capital facilities.

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

Fiduciary Fund Types:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. 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 School District are included on the Statement of Net Assets. The Statement of Activities accounts for increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. 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 accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "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 School District, available means expected to be received within sixty days of fiscal year-end.

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from 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 fiscal year-end: property taxes available as an advance, interest, charges for services, student fees and grants.

Deferred Revenue:

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

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

Expenses/Expenditures:

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. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents

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

During fiscal year 2004, the School District's investments included Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Notes, and Federal National Mortgage Association Notes. Investments are reported at fair value which is based on quoted market prices.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$70,244, which includes \$19,112 assigned from other funds.

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

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of materials and supplies held for consumption and donated and purchased foods.

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents legally required to be set-aside by the School District to create a reserve for budget stabilization and for the purchase of textbooks and instructional materials, and revenues restricted for the purchase of buses.

H. Capital Assets and Depreciation

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

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences and contractually required pension contributions will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current fiscal year. The general obligation bonds and OASBO Notes that will be paid from governmental funds are recognized as an expenditure and liability in the governmental fund financial statements when due.

J. Compensated Absences

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that the benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

K. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 and are eliminated on the Statement of Activities. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

L. Fund Balance Reserves and Designation

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. The School District also designates a portion of fund balance to indicate tentative plans for future financial resource uses that reflect managerial plans or intent. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, budget stabilization, textbooks and instructional materials, and bus purchases.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The designation for budget stabilization represents money set-aside by the Board of Education in excess of what is required by statute.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations and music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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

N. Estimates

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

O. Budgetary Data

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

For fiscal year 2004, the School District has implemented *GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”*, *GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”*, *GASB Statement No. 38, “Certain Financial Statement Note Disclosures”*, *GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”*, *GASB Statement No. 41, “Budgetary Comparison Schedules - Perspective Differences”*, and *GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”*

GASB Statement No. 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The government-wide financial statements combine the governmental activities into one column.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or that potentially could arise, in interpretation and practice.

GASB Statement No. 37 clarifies certain provisions of *GASB Statement No. 34*, including the required content of the Management’s Discussion and Analysis, the classification of program revenues, and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement note disclosure.

GASB Statement No. 39 further defines the guidelines of *GASB Statement No. 14, “The Financial Reporting Entity”*. The implementation of this new statement had no effect on the School District’s financial statements for fiscal year 2004.

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES (continued)

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the General and Major Special Revenue Funds. The implementation of this statement had no effect on the presentation of budgetary statements by the School District for fiscal year 2004.

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$4,522,413	\$582,451	\$1,024,713	\$6,129,577
Change in Fund Structure	0	0	61,096	61,096
GASB Interpretation No. 6	14,901	0	21,403	36,304
Adjusted Fund Balance, June 30, 2003	<u>\$4,537,314</u>	<u>\$582,451</u>	<u>\$1,107,212</u>	6,226,977
GASB 34 Adjustments:				
Capital Assets				11,599,756
Intergovernmental Payable				(50,005)
Long-Term Liabilities:				
General Obligation Bonds Payable				(855,000)
OASBO Notes Payable				(1,190,000)
Compensated Absences				(174,866)
Accrued Interest Payable				(6,483)
Long-Term (Deferred) Assets:				
Property Tax Delinquents				<u>402,868</u>
Governmental Activities Net Assets, June 30, 2003				<u>\$15,953,247</u>

NOTE 4 – ACCOUNTABILITY

At June 30, 2004, the Educational Management Information Systems, Title VI-B, and Title I Special Revenue Funds had deficit fund balances of \$1,210, \$6,008, and \$23,535, respectively. The General Fund regularly provides transfers to other funds to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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 (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statement. These amounts are included as revenue on the GAAP basis operating statements.
6. The change in the fair value of investments is not included on the budget basis operating statement. This amount is included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the General Fund.

Net Change in Fund Balance	
GAAP Basis	(\$454,652)
Net Adjustment for Revenue Accruals	60,319
Net Adjustment for Expenditure Accruals	74,546
Fair Value of Investments Fiscal Year 2004	72,706
Unrecorded Cash Fiscal Year 2003	(543)
Unrecorded Cash Fiscal Year 2004	(898)
Advances	2,464
Adjustment for Encumbrances	(115,059)
Budget Basis	<u>(\$361,117)</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of the School 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to payments of principal and interest by the United States;
2. Bonds, notes debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

The following information classifies deposits and investments by categories of risk as defined in *GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."*

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$2,547,391 and the bank balance was \$2,633,183. \$319,500 of the bank balance was covered by Federal Depository Insurance and \$2,313,683 was considered uninsured and uncollateralized as defined by GASB Statement No. 3. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

	Category 2	Fair Value
Federal Home Loan Mortgage Corporation Notes	\$2,443,530	\$2,443,530
Federal Home Loan Bank Notes	1,181,627	1,181,627
Federal National Mortgage Association Notes	504,375	504,375
Total	\$4,129,532	\$4,129,532

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in *GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."*

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments presented above per *GASB Statement No. 3* is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
<i>GASB Statement No. 9</i>	\$6,676,923	\$0
Investments:		
Federal Home Loan Mortgage Corporation Notes	(2,443,530)	2,443,530
Federal Home Loan Bank Notes	(1,181,627)	1,181,627
Federal National Mortgage Association Notes	(504,375)	504,375
<i>GASB Statement No. 3</i>	\$2,547,391	\$4,129,532

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003, and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Darke, Montgomery, and Preble Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES (continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004, was \$53,427 in the General Fund, \$3,124 in the Permanent Improvement Fund, and \$5,057 in the Nonmajor Funds. The amount available as an advance at June 30, 2003, was \$121,436 in the General Fund, \$7,049 in the Permanent Improvement Fund, and \$12,953 in the Nonmajor Funds. On a full accrual basis, collectible property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$95,608,340	75.15%	\$96,919,620	76.80%
Public Utility	6,305,180	4.96	5,856,810	4.64
Tangible Personal Property	25,301,844	19.89	23,425,564	18.56
Total Assessed Value	<u>\$127,215,364</u>	<u>100.00%</u>	<u>\$126,201,994</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$40.53		\$40.53	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, accounts (charges for services, tuition, and student fees), intergovernmental, and accrued interest. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Montgomery County ESC	\$3,095
Federal Food Reimbursement	9,148
Total	<u>\$12,243</u>

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 - CAPITAL ASSETS

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

	Balance 6/30/03	Additions	Deductions	Balance 6/30/04
Governmental Activities				
Capital Assets, not Being Depreciated:				
Land	\$122,305	\$306,300	\$0	\$428,605
Capital Assets, Being Depreciated:				
Land Improvements	520,812	8,676	0	529,488
Buildings and Improvements	13,494,778	639	0	13,495,417
Furniture, Fixtures and Equipment	2,839,813	66,877	0	2,906,690
Vehicles	884,238	0	0	884,238
Total Capital Assets, Being Depreciated	17,739,641	76,192	0	17,815,833
Less Accumulated Depreciation:				
Land Improvements	(520,812)	(868)		(521,680)
Buildings and Improvements	(3,633,905)	(270,053)	0	(3,903,958)
Furniture, Fixtures and Equipment	(1,629,036)	(168,044)	0	(1,797,080)
Vehicles	(478,437)	(24,689)	0	(503,126)
Total Accumulated Depreciation	(6,262,190)	(463,654) *	0	(6,725,844)
Capital Assets, Being Depreciated, Net	11,477,451	(387,462)	0	11,089,989
Governmental Activities Capital Assets, Net	\$11,599,756	(\$81,162)	\$0	\$11,518,594

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$360,794
Special	5,350
Vocational	13,436
Support Services:	
Pupils	647
Instructional Staff	5,988
Administration	28,368
Fiscal	855
Operation and Maintenance of Plant	2,180
Pupil Transportation	32,762
Extracurricular Activities	4,293
Operation of Non-Instructional Services	8,981
Total Depreciation Expense	\$463,654

NOTE 10 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Indiana Insurance for property, liability, fleet insurance, and inland marine coverage.

Coverage provided by Indiana Insurance is as follows:

Building and Contents - replacement cost (\$1,000 deductible)	\$10,882,650
Bus Fleet	1,000,000
Comprehensive (\$100 deductible)	
Collision (\$500 deductible)	
Uninsured Motorists	
Per Occurrence	1,000,000
Total Per Year	1,000,000

During fiscal year 2004, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP. (See Note 17).

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 - RISK MANAGEMENT (continued)

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

Excess Liability Limit per occurrence/per offense/per accident	\$2,000,000
Excess Liability Policy Aggregate Limit	\$2,000,000
Underlying Coverage:	
Educational General Liability	
Each occurrence Limit	1,000,000
General Aggregate Limit	3,000,000
Products/Completed Operations Aggregate Limit	1,000,000
Employers Liability – Stop Gap	
EL-Stop Gap-Each Accident Limit	1,000,000
EL-Stop Gap-Per Disease-Each Employee Limit	1,000,000
Employee Benefits Liability – Claims Made From	
Each Offense Limit	1,000,000
Employee Benefits Aggregate Limit	3,000,000
Defense Cost Cap	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has not been a significant reduction in insurance coverage from last fiscal year.

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

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

NOTE 10 - RISK MANAGEMENT (continued)

C. Employee Medical Benefits

For fiscal year 2004, the School District participated in the Preble County Consortium (the Consortium), a shared risk pool consisting of five local school districts and an educational service center (See Note 18). The School District pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all the Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$106,640, \$98,348, and \$57,453, respectively; 52.76 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System of Ohio

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

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

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$492,648, \$481,242, and \$325,423, respectively; 83.37 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$8,493 made by the School District and \$8,336 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2004, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining members of the board have elected SERS.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$37,896 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

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

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$78,550.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 280 days for certified employees and 260 for classified employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation up to a maximum of 85 days for classified employees and 70 days for certified employees.

B. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Coresource, Inc.

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/03	Additions	Deductions	Amount Outstanding 6/30/04	Amounts Due in One Year
Governmental Activities					
School Improvement Bonds					
1986 8.125%	\$855,000	\$0	\$120,000	\$735,000	\$125,000
OASBO Notes					
2002 4.28%	1,190,000	0	145,000	1,045,000	150,000
Compensated Absences	174,866	9,732	38,662	145,936	28,534
Total Governmental Activities					
Long-Term Liabilities	<u>\$2,219,866</u>	<u>\$9,732</u>	<u>\$303,662</u>	<u>\$1,925,936</u>	<u>\$303,534</u>

Tri-County North Local School Improvement General Obligation Bonds

On August 1, 1986, Tri-County North Local School District issued \$2,815,000 in voted general obligation bonds for the purpose of the acquisition, construction, reconstruction and other improvements to the school building. The bonds were issued for a twenty-three year period with final maturity at December 1, 2009. The debt will be retired from the Bond Retirement Debt Service Fund.

Tri-County North Local School OASBO Notes

The OASBO Notes were issued by the Rickenbacker Port Authority as part of the Ohio Association of School Business Officials Expanded Asset Pooled Financing Program. The Port Authority has entered into a trust agreement with Chase Manhattan Trust Company (the trustee) assigning payments to be received to the trustee. Therefore, the School District makes principal and interest payments to Chase Manhattan Trust Company. The School District is required to assign all of its rights to the Port Authority. The notes were issued April 25, 2002, for the purpose of constructing and improving school facilities and providing equipment, furnishings and site improvements. The debt will mature December 26, 2009, and will be retired from the Bond Retirement Debt Service Fund.

Compensated absences will be paid from the General Fund and the Food Service, Educational Management Information Systems, Title I, Title VI-B, and Reducing Class Size Special Revenue Funds.

The School District's overall legal debt margin was \$10,250,219 with an unvoted debt margin of \$126,202 at June 30, 2004.

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$275,000	\$95,823	\$370,823
2006	280,000	79,623	359,623
2007	295,000	63,020	358,020
2008	300,000	45,861	345,861
2009	310,000	28,058	338,058
2010	320,000	9,455	329,455
Total	<u>\$1,780,000</u>	<u>\$321,840</u>	<u>\$2,101,840</u>

NOTE 15 – NOTES PAYABLE

During fiscal year 2003, the School District issued an energy conservation note for energy conservation purposes, in the amount of \$109,455. The note is backed by the full faith and credit of the School District. The note was paid off during fiscal year 2004.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. Southwest Ohio Computer Association

The School District is a participant in the Southwest Ohio Computer Association (SWOCA) which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The School District paid SWOCA \$29,160 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. Southwestern Ohio Educational Purchasing Council

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

Payments to SOEPC are made from the General Fund. During fiscal year 2004, the School District paid \$23,853 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

C. Southwestern Ohio Instructional Technology Association

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2004, the School District paid \$3,227 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

NOTE 17 - INSURANCE PURCHASING POOLS

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

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

B. Ohio School Plan

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

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

NOTE 18 - SHARED RISK POOL

Preble County Consortium

The Preble County Consortium (the "Consortium"), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center for the purpose of achieving lower rates for medical insurance. The Consortium is governed by an advisory committee consisting of each member's superintendent or designee from each participating school district. Premiums are paid on a monthly basis to the Consortium and their designated insurance company. The Consortium is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Consortium may assess additional charges to all participants. The Preble County Educational Service Center

Tri County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

NOTE 19 - SET-ASIDE CALCULATIONS

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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 amount reserved for budget stabilization represents refunds received from the Bureau of Workers' Compensation. Based upon legislative changes, this is the only money still required to be set-aside for this purpose.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	Budget Stabilization	Textbooks/ Instructional Materials	Capital Improvements
Set-aside Reserve Balance as of June 30, 2003	\$36,010	\$99,221	\$0
Current Year Set-aside Requirement	0	159,558	159,558
Qualifying Disbursements	0	(84,390)	(5,296)
Current Year Offsets	0	0	(214,704)
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$36,010</u>	<u>\$174,389</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$36,010</u>	<u>\$174,389</u>	<u>\$0</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced capital acquisitions amounts below zero. This extra amount of offsets may not be used to reduce the set-aside requirements in future fiscal years. The total reserve balance for the set-asides at the end of the fiscal year was \$210,399.

NOTE 20 - TRANSFERS

The General Fund had transfers-out to Nonmajor Funds of \$162,721. Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds.

NOTE 21 - CONTINGENCIES

A. Federal and State Grants

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

B. Litigation

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

NOTE 22 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

NOTE 23 – SUBSEQUENT EVENT

On November 2, 2004, the School District passed a 4.9 mill levy for emergency requirements. The levy will expire in five years.



Auditor of State Betty Montgomery

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

Tri County North Local School District
Preble County
436 North Commerce Street
Lewisburg, Ohio 45338

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tri County North Local School District, Preble County, Ohio (the School District) as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 12, 2005, in which we noted the School District adopted Governmental Accounting Standards Board Statement No. 34, and reclassified activity formerly reported in the enterprise funds and as business type activity to special revenue funds and governmental activity. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated April 12, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated April 12, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

April 12, 2005



**Auditor of State
Betty Montgomery**

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**TRI COUNTY NORTH LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**