



**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, 2005, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash 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, 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2005, the School District ceased to report using generally accepted accounting principles and reported on the modified cash basis in a format comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2006, 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.

We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* requires presenting a federal awards expenditure schedule and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Betty Montgomery
Auditor of State

March 31, 2006

Tri-County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 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, 2005, within the limitations of the School District's modified cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets decreased \$92,313, which represents a 1.4 percent decrease from 2004.
- General receipts accounted for \$8,136,235 or 85.57 percent of all receipts. Program receipts in the form of charges for services, operating and capital grants, contributions, or interest accounted for \$1,371,975 or 14.43 percent of total receipts of \$9,508,210.
- The School District had \$9,600,523 in disbursements; only \$1,371,975 of these disbursements were offset by program specific charges for services, operating and capital grants, contributions, or interest. General receipts (primarily taxes and entitlements) were \$8,136,235.
- Among major funds, the General Fund had \$7,854,028 in receipts and \$7,906,280 in disbursements. The General Fund's balance decreased \$52,252 over 2004.

Using this Annual Financial Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanations and details regarding the information reported in the statements.

Tri-County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities – Modified Cash Basis

The statement of net assets and the statement of activities reflect how the School District did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental program draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other nonfinancial factors as well such as the School District's property tax base, the condition of the School District's capital assets, the extent of the School District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

Tri-County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds, not the School District as a whole. 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 most significant funds. The School District's major governmental funds are the General Fund and the Permanent Improvement Fund.

Governmental Funds

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 fiscal year-end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the School District's general governmental 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.

Fiduciary Funds

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

The School District as a Whole

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

Table 1
Net Assets

	<u>2004</u>	<u>2005</u>
Assets		
Current Assets	<u>\$6,600,949</u>	<u>\$6,508,636</u>
Net Assets		
Restricted	2,015,610	2,005,609
Unrestricted	<u>4,585,339</u>	<u>4,503,027</u>
<i>Total Net Assets</i>	<u><u>\$6,600,949</u></u>	<u><u>\$6,508,636</u></u>

Total assets of governmental activities decreased by \$92,313. 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 \$82,312.

Tri-County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005. Since this is the first year Tri-County North Local School District has prepared financial statements following GASB Statement 34 under the modified cash basis, receipt and disbursement comparisons to fiscal year 2004 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Change in Net Assets

Receipts:	
Program Cash Receipts:	
Charges for Services	\$494,127
Operating Grants, Contributions, and Interest	820,110
Capital Grants, Contributions, and Interest	57,738
<i>Total Program Receipts</i>	<u>1,371,975</u>
General Receipts:	
Property Taxes	4,079,392
Grants and Entitlements not Restricted to Specific Programs	3,883,730
Investment Earnings	147,011
Gifts and Donations	6,630
Miscellaneous	19,472
<i>Total General Receipts</i>	<u>8,136,235</u>
<i>Total Receipts</i>	<u>9,508,210</u>
Program Disbursements:	
Instruction:	
Regular	3,950,128
Special	969,691
Vocational	137,268
Support Services:	
Pupil	479,409
Instructional Staff	394,386
Board of Education	22,299
Administration	953,458
Fiscal	182,032
Operation and Maintenance of Plant	906,832
Pupil Transportation	506,227
Central	30,210
Operation of Non-Instructional Services	348,162
Extracurricular Activities	349,598
Principal	275,000
Interest and Fiscal Charges	95,823
<i>Total Disbursements</i>	<u>9,600,523</u>
<i>Change in Net Assets</i>	<u>(\$92,313)</u>

Tri-County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Governmental Activities

The unique nature of taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property Taxes made up 42.90 percent of receipts for governmental activities for the Tri-County North Local School District for fiscal year 2005.

Instruction comprises 52.68 of district disbursements. Support services disbursements make up 36.19 percent of the disbursements.

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 receipts and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005
Instruction:		
Regular	\$3,950,128	(\$3,749,540)
Special	969,691	(646,349)
Vocational	137,268	(117,582)
Support Services:		
Pupil	479,409	(283,391)
Instructional Staff	394,386	(378,766)
Board of Education	22,299	(22,299)
Administration	953,458	(945,178)
Fiscal	182,032	(182,032)
Operation and Maintenance of Plant	906,832	(867,441)
Pupil Transportation	506,227	(482,575)
Central	30,210	(17,861)
Operation of Non-Instructional Services	348,162	36,315
Extracurricular Activities	349,598	(201,026)
Principle	275,000	(275,000)
Interest and Fiscal Charges	95,823	(95,823)
<i>Total Disbursements</i>	\$9,600,523	(\$8,228,548)

Tri-County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

The School District's Funds

The School District's major funds are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$9,508,210 and disbursements of \$9,600,523. The net change in fund balance for the General Fund was (\$52,252), and the Permanent Improvement Fund was \$36,817.

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.

During the course of the fiscal year 2005, final appropriations decreased \$188,562 to \$8,022,047 from original appropriations of \$8,210,609 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 \$7,809,205, a \$478,892 increase from the original budgeted revenue estimate of \$7,330,313. This difference was mainly in property tax receipts, because of the collection of a new tax levy.

Debt Administration

At June 30, 2005 the School District had \$1,505,000 in debt outstanding, of which \$280,000 is due within one year. Table 4 summarizes the debt outstanding:

Table 4
Outstanding Debt, at Year-End
Governmental Activities

	<u>2004</u>	<u>2005</u>
School Improvement Bonds	\$735,000	\$610,000
OASBO Notes	1,045,000	895,000
	<u>\$1,780,000</u>	<u>\$1,505,000</u>

Tri-County North Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

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 and authorizing the issuance and sale of bonds constituting special obligations of the Port Authority payable solely from the trust estate. 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, 2005, the School District's overall legal debt limitation was \$10,481,477 with an unvoted debt margin of \$126,611.

For more information on the School District's debt, see Note 10 of the Basic Financial Statements.

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 - Modified Cash Basis
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$6,508,636</u>
Net Assets	
Restricted for:	
Debt Service	591,489
Capital Outlay	607,722
Other Purposes	542,549
Set-Asides	263,849
Unrestricted	<u>4,503,027</u>
<i>Total Net Assets</i>	<u><u>\$6,508,636</u></u>

See Accompanying Notes to the Basic Financial Statements
See Accountants' Compilation Report

Tri-County North Local School District
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2005

	Cash Disbursements	Charges for Services	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets
			Operating Grants, Contributions and Interest	Capital Grants Contributions, and Interest	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$3,950,128	\$94,058	\$96,240	\$10,290	(\$3,749,540)
Special	969,691	0	323,342	0	(646,349)
Vocational	137,268	0	19,686	0	(117,582)
Support Services:					
Pupil	479,409	0	196,018	0	(283,391)
Instructional Staff	394,386	0	15,620	0	(378,766)
Board of Education	22,299	0	0	0	(22,299)
Administration	953,458	0	8,280	0	(945,178)
Fiscal	182,032	0	0	0	(182,032)
Operation and Maintenance of Plant	906,832	0	0	39,391	(867,441)
Pupil Transportation	506,227	0	15,595	8,057	(482,575)
Central	30,210	0	12,349	0	(17,861)
Operation of Non-Instructional Services	348,162	251,497	132,980	0	36,315
Extracurricular Activities	349,598	148,572	0	0	(201,026)
Principal	275,000	0	0	0	(275,000)
Interest and Fiscal Charges	95,823	0	0	0	(95,823)
Totals	<u>\$9,600,523</u>	<u>\$494,127</u>	<u>\$820,110</u>	<u>\$57,738</u>	<u>(8,228,548)</u>
General Receipts					
Property Taxes Levied for					
General Purposes					3,576,488
Debt Service					276,261
Capital Outlay					170,110
Other Purposes					56,533
Grants and Entitlements not Restricted to Specific Programs					3,883,730
Investment Earnings					147,011
Gifts and Donations					6,630
Miscellaneous					19,472
<i>Total General Receipts</i>					<u>8,136,235</u>
<i>Change in Net Assets</i>					(92,313)
<i>Net Assets Beginning of Year- Restated (Note 3)</i>					<u>6,600,949</u>
<i>Net Assets End of Year</i>					<u><u>\$6,508,636</u></u>

See Accompanying Notes to the Basic Financial Statements
See Accountants' Compilation Report

Tri-County North Local School District
Statement of Assets and Fund Balances- Modified Cash Basis
Governmental Funds
June 30, 2005

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,503,027	\$607,559	\$1,134,201	\$6,244,787
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	263,849	0	0	263,849
<i>Total Assets</i>	<u>\$4,766,876</u>	<u>\$607,559</u>	<u>\$1,134,201</u>	<u>\$6,508,636</u>
Fund Balances				
Reserved for Encumbrances	\$114,534	\$269,236	\$85,363	\$469,133
Reserved for Textbooks and Instructional Materials	227,839	0	0	227,839
Reserved for Budget Stabilization	36,010	0	0	36,010
Unreserved, Designated:				
Designated for Budget Stabilization	262,536	0	0	262,536
Unreserved, Undesignated, Reported in:				
General Fund	4,125,957	0	0	4,125,957
Special Revenue Funds	0	0	457,186	457,186
Debt Service Fund	0	0	591,489	591,489
Capital Projects Funds	0	338,323	163	338,486
<i>Total Fund Balances</i>	<u>\$4,766,876</u>	<u>\$607,559</u>	<u>\$1,134,201</u>	<u>\$6,508,636</u>

See Accompanying Notes to the Basic Financial Statements
See Accountants' Compilation Report

Tri-County North Local School District
Statement of Cash Receipts, Disbursements and Changes in
Fund Balances - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Receipts:				
Property Taxes	\$3,576,488	\$170,110	\$332,794	\$4,079,392
Intergovernmental	4,069,232	14,203	638,013	4,721,448
Interest	147,011	39,391	739	187,141
Tuition and Fees	23,878	0	53,274	77,152
Rent	16,906	0	0	16,906
Extracurricular Activities	0	0	148,572	148,572
Gifts and Donations	5,807	0	823	6,630
Charges for Services	0	0	251,497	251,497
Miscellaneous	14,706	0	4,766	19,472
<i>Total Receipts</i>	<u>7,854,028</u>	<u>223,704</u>	<u>1,430,478</u>	<u>9,508,210</u>
Disbursements:				
Current:				
Instruction:				
Regular	3,736,703	27,004	184,905	3,948,612
Special	831,246	0	138,445	969,691
Vocational	133,613	0	3,655	137,268
Support Services:				
Pupil	284,676	370	194,363	479,409
Instructional Staff	372,909	0	21,477	394,386
Board of Education	22,299	0	0	22,299
Administration	942,655	3,436	7,367	953,458
Fiscal	166,037	6,488	9,507	182,032
Operation and Maintenance of Plant	702,335	149,258	55,239	906,832
Pupil Transportation	504,750	331	1,146	506,227
Central	19,543	0	10,667	30,210
Operation of Non-Instructional Services	0	0	348,162	348,162
Extracurricular Activities	187,998	0	161,600	349,598
Capital Outlay	1,516	0	0	1,516
Debt Service:				
Principal Retirement	0	0	275,000	275,000
Interest and Fiscal Charges	0	0	95,823	95,823
<i>Total Disbursements</i>	<u>7,906,280</u>	<u>186,887</u>	<u>1,507,356</u>	<u>9,600,523</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(52,252)</u>	<u>36,817</u>	<u>(76,878)</u>	<u>(92,313)</u>
Other Financing Sources (Uses):				
Advances In	148,367	0	148,367	296,734
Advances Out	(148,367)	0	(148,367)	(296,734)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(52,252)</u>	<u>36,817</u>	<u>(76,878)</u>	<u>(92,313)</u>
<i>Fund Balances Beginning of Year- Restated (Note 3)</i>	<u>4,819,128</u>	<u>570,742</u>	<u>1,211,079</u>	<u>6,600,949</u>
<i>Fund Balances End of Year</i>	<u><u>\$4,766,876</u></u>	<u><u>\$607,559</u></u>	<u><u>\$1,134,201</u></u>	<u><u>\$6,508,636</u></u>

See Accompanying Notes to the Basic Financial Statements
See Accountants' Compilation Report

Tri-County North Local School District
Statement of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual- Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts:				
Property Taxes	\$3,231,207	\$3,576,488	\$3,576,488	\$0
Intergovernmental	3,942,159	4,069,232	4,069,232	0
Interest	66,733	116,435	116,435	0
Tuition and Fees	66,306	23,878	23,878	0
Rent	10,000	16,906	16,906	0
Gifts and Donations	13,520	5,807	5,807	0
Miscellaneous	388	459	459	0
<i>Total Receipts</i>	<u>7,330,313</u>	<u>7,809,205</u>	<u>7,809,205</u>	<u>0</u>
Disbursements:				
Current:				
Instruction:				
Regular	3,764,476	3,749,463	3,749,463	0
Special	877,136	857,834	857,834	0
Vocational	143,333	133,613	133,613	0
Other	6,000	8,051	8,051	0
Support Services:				
Pupils	418,409	287,467	287,467	0
Instructional Staff	367,674	373,669	373,669	0
Board of Education	19,790	22,299	22,299	0
Administration	1,000,903	960,027	960,027	0
Fiscal	173,732	170,046	170,046	0
Operation and Maintenance of Plant	726,367	738,134	738,134	0
Pupil Transportation	446,222	511,328	511,328	0
Central	32,974	19,543	19,543	0
Extracurricular Activities	232,243	188,946	188,946	0
Capital Outlay	1,350	1,627	1,627	0
<i>Total Disbursements</i>	<u>8,210,609</u>	<u>8,022,047</u>	<u>8,022,047</u>	<u>0</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(880,296)</u>	<u>(212,842)</u>	<u>(212,842)</u>	<u>0</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	6,702	4,357	4,357	0
Advances In	0	148,367	148,367	0
Advances Out	0	(148,367)	(148,367)	0
<i>Total Other Financing Sources (Uses)</i>	<u>6,702</u>	<u>4,357</u>	<u>4,357</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(873,594)	(208,485)	(208,485)	0
<i>Fund Balances at Beginning of Year</i>	4,775,877	4,775,877	4,775,877	0
<i>Prior Year Encumbrances Appropriated</i>	<u>115,059</u>	<u>115,059</u>	<u>115,059</u>	<u>0</u>
<i>Fund Balances at End of Year</i>	<u>\$4,017,342</u>	<u>\$4,682,451</u>	<u>\$4,682,451</u>	<u>\$0</u>

See Accompanying Notes to the Basic Financial Statements
See Accountants' Compilation Report

Tri-County North Local School District
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
June 30, 2005

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$13,103	<u>\$55,733</u>
Liabilities		
Current Liabilities		
Due to Students	<u>0</u>	<u>\$55,733</u>
Net Assets		
Held in Trust for Scholarships	<u>\$13,103</u>	

See Accompanying Notes to the Basic Financial Statements
See Accountants' Compilation Report

Tri-County North Local School District
Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
Additions	\$0
Deductions	
Payments in Accordance with Trust Agreements	1,000
<i>Changes in Net Assets</i>	(1,000)
<i>Net Assets Beginning of Year</i>	14,103
<i>Net Assets End of Year</i>	\$13,103

See Accompanying Notes to the Basic Financial Statements
See Accountants' Compilation Report

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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 Board form of government and provides educational services as authorized 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 comprised 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 does not have any 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 Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), the Ohio School Plan (OSP), and the Preble County Consortium (the “Consortium”), respectively. These organizations are presented in Note 11 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in section C of Note 2, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. For governmental activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. 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 financial 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 government-wide statements usually distinguish between those activities of the School District that are governmental and those that are business-type. The School District, however, does not have any activities which are presented as business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net assets presents the cash balance and debt of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Fiduciary funds are reported by type.

B. Fund Accounting

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

Governmental: The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants) and other nonexchange transactions as governmental funds. 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 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are a private purpose trust fund and an agency fund. The Private Purpose Trust Fund accounts for college scholarship programs for students. The School District's Agency Fund accounts for 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. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board. Before fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year in all funds.

The appropriation resolution is subject to amendment by the board throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year including all supplemental appropriations. Prior to fiscal year-end, the School District passed a supplemental appropriation that reflected actual expenditures plus encumbrances for the fiscal year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Investments

During fiscal year 2005, the School District's investments included Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and Federal Home Loan Bank Notes. Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2005 was \$147,011, which included \$40,699 assigned from other School District 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 and cash equivalents.

F. 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 law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent amounts required by State statute to be set aside for the purchase of textbooks and instructional materials and budget stabilization.

G. Interfund Receivables/Payables

The School District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

H. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

I. Net 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, music and athletic programs, and federal and State grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Tri-County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide statement of net assets reports \$2,005,609 of restricted net assets, of which \$871,535 is restricted by enabling legislation.

J. Fund Balance Reserves and Designations

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, textbooks and instructional materials, and budget stabilization.

The reserve for budget stabilization represents money received from the Bureau of Workers' Compensation. The reserve for textbooks and instructional materials represents money required to be set-aside by State statute for the purchase of textbooks and instructional materials. The designation for budget stabilization represents money set aside by the Board of Education in excess of what is required by statute.

NOTE 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

A. Change in Basis of Accounting

For 2005, the School District ceased to report using generally accepted accounting principles and reported on the modified cash basis as described in Note 2C.

B. Restatement of Fund Equity

The implementation of this change had the following effects on fund equity of the major and nonmajor funds of the School District as they were previously reported. The effects on net assets of governmental activities are also presented.

	General	Permanent Improvement	Other Governmental	Total Governmental
Fund Balance June 30, 2004	\$4,082,662	\$571,272	\$1,160,430	\$5,814,364
Eliminate Asset Accruals	(3,646,463)	(172,735)	(428,807)	(4,248,005)
Eliminate Liability Accruals	4,382,929	172,205	479,456	5,034,590
Adjusted Fund Balance June 30, 2004	<u>\$4,819,128</u>	<u>\$570,742</u>	<u>\$1,211,079</u>	<u>\$6,600,949</u>

Tri-County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY (continued)

Governmental Activities Net Assets June 30, 2004	\$15,813,801
Eliminate Government-Wide Financial Statement Adjustments:	
Intergovernmental Receivable	(12,243)
Accrued Interest Receivable	(34,772)
Accounts Receivable	(14,981)
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)
Long Term Debt	1,780,000
Accounts Payable	48,398
Accrued Wages and Benefits Payable	684,421
Intergovernmental Payable	249,880
Matured Compensated Absences	2,574
Compensated Absences	145,936
Accrued Interest Payable	5,591
Deferred Revenue	3,636,947
Adjusted Governmental Activities Net Assets June 30, 2004	\$6,600,949

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The statement of receipts, disbursements and changes in fund balance – budget and actual presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual – budget basis results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis), unrecorded cash which represents amounts received but not included on the budgetary basis, and the change in fair value of investments which is not included as revenue on the budgetary basis. Unrecorded cash and the change in fair value of investments are included as revenue on the modified cash basis statement of cash receipts, disbursements and changes in fund balances.

Tri-County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

The following table summarizes the adjustments necessary to reconcile the modified cash basis statements to the budgetary basis statements for the General Fund.

	<u>General</u>
Modified Cash Basis	(\$52,252)
Unrecorded Cash FY 2004	898
Unrecorded Cash FY 2005	(22,412)
Fair Value of Investments FY 2004	(72,706)
Fair Value of Investments FY 2005	52,521
Adjustment for Encumbrances	<u>(114,534)</u>
Budget Basis	<u><u>(\$208,485)</u></u>

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tri-County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - PROPERTY TAXES (continued)

Tangible personal property tax receipts received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 Counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	<u>2004 Second- Half Collections</u>		<u>2005 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential And Other Real Estate	\$96,919,620	76.80%	\$98,132,580	77.51%
Public Utility	5,856,810	4.64	6,171,660	4.87
Tangible Personal Property	23,425,564	18.56	22,306,741	17.62
Total Assessed Value	<u>\$126,201,994</u>	<u>100.00%</u>	<u>\$126,610,981</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$40.53		\$40.53	

NOTE 6 - DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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.

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Inactive deposits are public deposits that the Board 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 or deposit accounts, including passbook accounts.

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$849,690 of the School District’s bank balance was exposed to custodial credit risk because it was uninsured and collateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

B. Investments

As of June 30, 2005, the School District had the following investments. All investments are in an internal investment pool.

Investment Type	Fair Value	Investment Maturities (in years)	
		Less than 1	1-2
Federal National Mortgage Association Notes	\$500,155	\$0	\$500,155
Federal Home Loan Mortgage Corporation Notes	2,761,046	498,985	2,262,061
Federal Home Loan Bank Notes	1,777,379	595,721	1,181,658
Total Investments	\$5,038,580	\$1,094,706	\$3,943,874

Interest Rate Risk: The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk: The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes and the Federal Home Loan Bank Notes carry a rating of AAA by Moody’s. The School District’s investment policy limits investments to those authorized by State statute.

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk: The School District places no limit on the amount it may invest in any one issuer. The School District's investments in the Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and Federal Home Loan Bank Notes represents 9.93 percent, 54.80 percent, and 35.27 percent respectively, of the School District's total investments.

NOTE 7 - 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 2005, 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 2005, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an 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 11).

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	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	
Employers Liability Stop Gap-Each Accident Limit	1,000,000
Employers Liability Stop Gap-Per Disease-Each Employee Limit	1,000,000
Employee Benefits Liability – Claims Made From	

Tri-County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - RISK MANAGEMENT (continued)

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 have been no significant reductions in insurance coverage from last fiscal year.

B. Workers' Compensation

For fiscal year 2005 the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve 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. GRP then calculates total savings and each participant's individual performance is compared to the overall Plan's savings percentage. A participant then either receives money from or contributes to GRP's 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.

C. Employee Medical Benefits

For fiscal year 2005, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 11). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the MBP. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

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 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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, 2005, 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. 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.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, 2003 were \$524,446, \$492,648, and \$481,242, respectively; 100 percent has been contributed for all three fiscal years. Contributions to the DC and Combined Plans for fiscal year 2005 were \$13,632 made by the School District and \$13,013 made by the plan members.

B. 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.

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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, 2005, 2004, and 2003, were \$118,453, \$160,640, and \$98,348, respectively; the full amount has been contributed for all three fiscal years.

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 have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2005, one member of the Board of Education elected Social Security. The remaining Board members contribute to SERS. The Board's liability is 6.2 percent of wages paid.

NOTE 9 - 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 Ohio 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, 2005, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$40,342 for fiscal year 2005.

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

Tri-County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - POSTEMPLOYMENT BENEFITS (continued)

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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at two percent of each employer's SERS salaries. For the 2005 fiscal year, School District paid \$60,851 to fund health care benefits, including the surcharge.

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, 2005, were \$178,221,113 and the target level was \$367.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 10 - LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/04	Additions	Deductions	Amount Outstanding 6/30/05	Amounts Due Within One Year
Governmental Activities					
School Improvement Bonds					
1986 8.125%	\$735,000	\$0	\$125,000	\$610,000	\$120,000
OASBO Notes					
2002 4.28%	1,045,000	0	150,000	895,000	160,000
Total Governmental Activities					
Long-Term Liabilities	<u>\$1,780,000</u>	<u>\$0</u>	<u>\$275,000</u>	<u>\$1,505,000</u>	<u>\$280,000</u>

Tri-County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS (continued)

School Improvement 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 Fund.

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 and authorizing the issuance and sale of bonds constituting special obligations of the Port Authority payable solely from the trust estate. 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 Fund.

The School District's overall legal debt margin was \$10,481,477 with an unvoted debt margin of \$126,611 at June 30, 2005.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2005, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
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>\$1,505,000</u>	<u>\$226,017</u>	<u>\$1,731,017</u>

**NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS,
AND SHARED RISK POOL** (continued)

A. Jointly Governed Organizations

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 \$29,569 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3607 Hamilton-Middletown Road, Hamilton, Ohio 45011.

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 2005, the School District paid \$7,107 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive Suite 208, Vandalia, OH 45377.

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.

NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND SHARED RISK POOL (continued)

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 2005, the School District paid \$1,493 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.

B. Insurance Purchasing Pools

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), an insurance purchasing pool. 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.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various MBP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

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 11 - JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS,
AND SHARED RISK POOL** (continued)

C. 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. 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 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 12 – SET- ASIDE CALCULATION

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.

Tri-County North Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 – SET- ASIDE CALCULATION (continued)

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

	<u>Budget Stabilization</u>	<u>Textbooks/ Instructional Materials</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2004	\$36,010	\$174,389	\$0
Current Year Set-aside Requirement	0	163,520	163,520
Qualifying Disbursements	0	(110,070)	(76,250)
Current Year Offsets	<u>0</u>	<u>0</u>	<u>(226,643)</u>
Total	<u>\$36,010</u>	<u>\$227,839</u>	<u>(\$139,373)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$36,010</u>	<u>\$227,839</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2005	<u>\$36,010</u>	<u>\$227,839</u>	<u>\$0</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvement amount 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 \$263,849.

NOTE 13 - CONTINGENCIES

A. Grants

The School District received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2005.

B. Litigation

The School District is not currently party to any legal proceedings

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	n/a	10.550		\$27,581		\$25,759
Child Nutrition Cluster:						
National School Breakfast Program	091397-05-PU-05	10.553	\$6,714		\$6,714	
	091397-05-PU-04		2,120		2,120	
Total National School Breakfast Program			8,834		8,834	
National School Lunch Program	091397-LL-P4-05	10.555	73,527		73,527	
	091397-LL-P4-04		19,001		19,001	
Total National School Lunch Program			92,528		92,528	
Total Child Nutrition Cluster			101,362		101,362	
Total U.S. Department of Agriculture			101,362	27,581	101,362	25,759
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	091397-6B-SF-05P	84.027	88,102		193,247	
	091397-6B-SF-04P		0		2,084	
Total Special Education Grants to States			88,102		195,331	
Special Education - Preschool Grant	091397-PG-S1-05P	84.173	4,847		4,847	
	091397-PG-S1-04P		0		399	
Total Special Education - Preschool Grant			4,847		5,246	
Total Special Education Cluster			92,949		200,577	
Grants to Local Educational Agencies (ESEA Title I)	091397-C1-S1-05	84.010	125,978		125,978	
	091397-C1-S1-04		0		2,886	
Total Grants to Local Educational Agencies			125,978		128,864	
Technology Literacy Challenge	091397-TJS1-05	84.318	3,349		1,667	
Drug Free Schools	091397-DR-S1-05	84.186	5,214		5,214	
Improving Teacher Quality	091397-TRS1-05	84.367	49,059		46,388	
	091397-TRS1-04		0		18,102	
Total Improving Teacher Quality			49,059		64,490	
Innovative Education Program Strategies	091397-C2-S1-05	84.298	4,731		4,731	
Total U.S. Department of Education			281,280		405,543	
TOTAL FEDERAL ASSISTANCE			\$382,642	\$27,581	\$506,905	\$25,759

The accompanying notes to this schedule are an integral part of this schedule.

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

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

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



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, 2005, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated March 31, 2006, in which we noted the School District prepares its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 March 31, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the School District's management dated March 31, 2006, we reported other matters related to noncompliance we deemed immaterial.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
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www.auditor.state.oh.us

Tri-County North Local School District
Preble County
Independent Accountants' Report on *Internal Control*
Over Financial Reporting and Compliance and Other
Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies. 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

March 31, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Tri-County North Local School District, Preble County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the Tri-County North Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

We intend this report solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies. 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

March 31, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I: CFDA #84.010 Special Education Cluster: Title VI-B IDEA: CFDA #84.027 Preschool Grants: CFDA #84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2005-001

Material Noncompliance

Ohio Admin. Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosure that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District, as such, we recommend the School District prepares its annual financial report in accordance with generally accepted accounting principles.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**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
APRIL 17, 2006**