



Mary Taylor, CPA  
Auditor of State



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

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# Mary Taylor, CPA

Auditor of State

## 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, 2007, 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.

For fiscal year 2007, the School District prepared the financial statements in conformity with generally accepted accounting principles. In prior fiscal years, the School District prepared its financial statements using the modified cash basis of accounting. This change is discussed in Note 3 in the notes to the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tri-County North Local School District, Preble County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2008 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America 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.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The federal awards receipts and expenditures schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures 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.



**Mary Taylor, CPA**  
Auditor of State

June 9, 2008

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007

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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, 2007. 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 2007 are as follows:

- In total, net assets decreased \$75,857, which represents a 0.50 percent decrease from fiscal year 2006.
- General revenues accounted for \$9,178,886 or 86.33 percent of all revenues. Program revenues in the form of charges for services, operating and capital grants and contributions accounted for \$1,453,641 or 13.67 percent of total revenues of \$10,632,347.
- The School District had \$10,708,204 in expenses; only \$1,453,641 of these expenses were offset by program specific charges for services, operating and capital grants, and contributions.
- Among major funds, the General Fund had \$8,906,822 in revenues and \$8,418,024 in expenses. The General Fund's balance increased \$377,940 over fiscal year 2006.

#### **Using this General Accepted Accounting Principles (GAAP) Report**

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

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

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007

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**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the School District reports only governmental activities. Governmental activities are the activities where all of the School District's programs and services are reported including, but not limited to, instruction, support services, operation of non-instructional services, and extracurricular activities. The School District does not have any business-type activities.

**Reporting the School District's Most Significant Funds**

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 7. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Permanent Improvement Capital Projects Fund.

*Governmental Funds*

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.



**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007

*Fiduciary Funds*

The School District's only fiduciary funds are a private purpose trust fund and an agency fund. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

**The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net assets for fiscal year 2007 compared to fiscal year 2006:

Table 1  
Net Assets

	Restated 2006	2007	Change
<b>Assets:</b>			
Current and Other Assets	\$10,937,241	\$11,317,953	\$380,712
Capital Assets	10,879,554	10,489,536	(390,018)
<i>Total Assets</i>	<u>21,816,795</u>	<u>21,807,489</u>	<u>(9,306)</u>
<b>Liabilities:</b>			
Long-Term Liabilities	1,544,376	1,256,740	(287,636)
Other Liabilities	5,247,120	5,601,307	354,187
<i>Total Liabilities</i>	<u>6,791,496</u>	<u>6,858,047</u>	<u>66,551</u>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	9,654,554	9,559,536	(95,018)
Restricted	1,669,868	1,295,994	(373,874)
Unrestricted	3,700,877	4,093,912	393,035
<i>Total Net Assets</i>	<u>\$15,025,299</u>	<u>\$14,949,442</u>	<u>(\$75,857)</u>

Total net assets of governmental activities increased by \$75,857. Total assets of governmental activities decreased \$9,306, as current assets increased by \$380,712, mainly due to an increase in property tax receivable as a result of the County's reappraisal of assessed values and a full collection of the emergency tax levy. Capital assets decreased \$390,018 due to current fiscal year deletions and depreciation expense exceeding fiscal year 2007 additions.

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007

Total liabilities increased \$66,551, as other liabilities increased \$354,187, mainly deferred revenue. Deferred revenue represents the amount of property tax revenue expected for collection during fiscal year 2008. Long-term liabilities decreased \$287,636 as a result of \$295,000 in principal payments in regards to the School Improvement Bonds and the OASBO Notes.

Invested in capital assets, net of related debt decreased \$95,018 due to the decrease in capital assets for fiscal year 2007. The increase of \$393,035 in unrestricted net assets was a result of the full year of collection on the emergency levy. The significant decrease in restricted net assets was the result of an increase in expenses relating to the regular upkeep and maintenance of the School District's facilities.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007. In prior years, the School District's financial statements were presented on a modified cash basis of accounting, a different basis of accounting than fiscal year 2007. Therefore, comparisons to fiscal year 2006 would not be accurate, so it is not presented. In future years, when prior-year information is available, a comparative analysis of district-wide data will be presented.

Table 2  
Change in Net Assets

	2007
<b>Revenues:</b>	
Program Revenues:	
Charges for Services	\$579,627
Operating Grants and Contributions	837,116
Capital Grants and Contributions	36,718
<i>Total Program Revenues</i>	1,453,461
General Revenues:	
Property Taxes	4,509,807
Grants and Entitlements not Restricted to Specific Programs	4,300,518
Investment Earnings	356,198
Gifts and Donations	4,660
Miscellaneous	7,703
<i>Total General Revenues</i>	9,178,886
<i>Total Revenues</i>	\$10,632,347

(continued)

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007

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Table 2  
Changes in Net Assets  
(continued)

Instruction:	
Regular	\$4,840,763
Special	753,813
Vocational	175,432
Support Services:	
Pupils	463,376
Instructional Staff	455,945
Board of Education	8,470
Administration	1,184,369
Fiscal	198,907
Operation and Maintenance of Plant	1,303,865
Pupil Transportation	454,500
Central	30,041
Operation of Non-Instructional Services	381,513
Extracurricular Activities	395,132
Interest and Fiscal Charges	62,078
<i>Total Expenses</i>	10,708,204
<i>Change in Net Assets</i>	(75,857)
<i>Net Assets at Beginning of Year</i>	15,025,299
<i>Net Assets at End of Year</i>	\$14,949,442

### **Governmental Activities**

The unique nature of taxes in Ohio creates the need to routinely seek voter approval for the School District's operations. Property Taxes made up 42.42 percent of revenues for governmental activities for the School District for fiscal year 2007.

Instruction comprises 53.88 percent of School District expenses. Support services expenses make up 38.28 percent of the expenses.

The statement of activities shows the cost of program services and the charges for services and grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenues and unrestricted State entitlements. Comparisons to fiscal year 2006 have not been made because the data is not available.

**Tri-County North Local School District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2007**

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Table 3  
Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007
Instruction:		
Regular	\$4,840,763	(\$4,628,253)
Special	753,813	(412,671)
Vocational	175,432	(149,527)
Support Services:		
Pupils	463,376	(295,853)
Instructional Staff	455,945	(450,246)
Board of Education	8,470	(8,470)
Administration	1,184,369	(1,176,989)
Fiscal	198,907	(133,671)
Operation and Maintenance of Plant	1,303,865	(1,266,190)
Pupil Transportation	454,500	(454,500)
Central	30,041	(21,041)
Operation of Non-Instructional Services	381,513	24,795
Extracurricular Activities	395,132	(220,049)
Interest and Fiscal Charges	62,078	(62,078)
<i>Total Expenses</i>	<u>\$10,708,204</u>	<u>(\$9,254,743)</u>

**The School District's Funds**

Information about the School District's major funds starts on page 12. The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$10,593,217 and expenditures of \$10,608,944. The net change in fund balance for the General Fund was \$377,940, and the Permanent Improvement Capital Projects Fund change in fund balance was (\$304,064). The General Fund reflects the full collection of the additional revenue of the new emergency tax levy as well as expenditures remaining constant from the previous fiscal year. In the Permanent Improvement Capital Projects Fund the School District had some major expenditures this fiscal year, which exceeded revenues, but beginning fund balance was enough to cover the excess.

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007

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**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 revenues, expenditures, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2007, final appropriations decreased \$367,919 to \$8,721,670, from original appropriations of \$9,089,589 mainly because the School District has historically held conservative ways of spending 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 revenues estimate was \$8,472,604, a \$45,241 increase from the original budgeted revenues estimate of \$8,427,363, a less than one percent increase. 2007 revenues increased \$117,734 from final budgeted revenues, slightly above a one percent increase.

There was no variance between final budget and expenditures because prior to fiscal year-end, the School District passed a supplement appropriation that reflected actual expenditures.

**Capital Assets**

At the end of fiscal year 2007, the School District had \$10,489,536 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles.

Table 4 shows fiscal year 2007 balances compared to fiscal year 2006.

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

	2006	2007
Land	\$380,453	\$380,453
Land Improvements	218,053	194,624
Buildings and Improvements	9,171,721	8,901,656
Furniture, Fixtures, and Equipment	956,425	891,181
Vehicles	152,901	121,622
Totals	\$10,879,553	\$10,489,536

Overall capital assets decreased \$390,017 from fiscal year 2006 to fiscal year 2007. Additions during the fiscal year were less than depreciation expense and deletions. For more information on capital assets, refer to Note 11 of the basic financial statements.

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2007

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**Debt Administration**

At June 30, 2007, the School District had voted general obligation bonds, originally dated August 1, 1986, that will be retired on December 1, 2009 for the purpose of acquisition, construction, reconstruction, and other improvements for the school building. The OASBO notes were issued April 25, 2002 for the purpose of improving school facilities and will be retired on December 26, 2009. Table 5 summarizes the debt outstanding:

Table 5  
Outstanding Debt, at Fiscal Year-End  
Governmental Activities

	<u>2006</u>	<u>2007</u>
School Improvement Bonds	\$490,000	\$365,000
OASBO Notes	735,000	565,000
<i>Totals</i>	<u>\$1,225,000</u>	<u>\$930,000</u>

For more information on the School District's debt, see Note 12 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](mailto:tcbo_lf@swoca.net).

**Tri-County North Local School District**

Statement of Net Assets

June 30, 2007

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	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$6,227,130
Accounts Receivable	11,363
Accrued Interest Receivable	25,970
Intergovernmental Receivable	38,375
Inventory of Supplies and Materials	30,787
Inventory Held for Resale	1,611
Property Taxes Receivable	4,982,717
Nondepreciable Capital Assets	380,453
Depreciable Capital Assets, Net	<u>10,109,083</u>
<i>Total Assets</i>	<u>21,807,489</u>
<b>Liabilities:</b>	
Accounts Payable	25,604
Accrued Wages and Benefits Payable	797,663
Matured Compensated Absences Payable	19,623
Accrued Vacation Leave Payable	33,973
Accrued Interest Payable	2,816
Intergovernmental Payable	239,264
Deferred Revenue	4,482,364
Long-Term Liabilities:	
Due Within One Year	302,038
Due In More Than One Year	<u>954,702</u>
<i>Total Liabilities</i>	<u>6,858,047</u>
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	9,559,536
Restricted for:	
Capital Projects	136,716
Debt Service	544,929
Other Purposes	152,056
Food Service	97,291
Classroom Facilities Maintenance	143,168
Set-Asides	221,834
Unrestricted	<u>4,093,912</u>
<i>Total Net Assets</i>	<u><u>\$14,949,442</u></u>

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
Statement of Activities  
For the Fiscal Year Ended June 30, 2007

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
Instruction:					
Regular	\$4,840,763	\$129,264	\$75,702	\$7,544	(\$4,628,253)
Special	753,813	0	341,142	0	(412,671)
Vocational	175,432	3,690	22,215	0	(149,527)
Support Services:					
Pupils	463,376	0	167,523	0	(295,853)
Instructional Staff	455,945	0	5,699	0	(450,246)
Board of Education	8,470	0	0	0	(8,470)
Administration	1,184,369	0	7,380	0	(1,176,989)
Fiscal	198,907	0	65,236	0	(133,671)
Operation and Maintenance of Plant	1,303,865	0	8,501	29,174	(1,266,190)
Pupil Transportation	454,500	0	0	0	(454,500)
Central	30,041	0	9,000	0	(21,041)
Operation of Non-Instructional Services	381,513	271,590	134,718	0	24,795
Extracurricular Activities	395,132	175,083	0	0	(220,049)
Interest and Fiscal Charges	62,078	0	0	0	(62,078)
<i>Totals</i>	<u>\$10,708,204</u>	<u>\$579,627</u>	<u>\$837,116</u>	<u>\$36,718</u>	<u>(9,254,743)</u>
<b>General Revenues:</b>					
Property Taxes Levied for:					
General Purposes					4,003,557
Debt Service					289,023
Capital Outlay					162,097
Classroom Facilities Maintenance					55,130
Grants and Entitlements not Restricted to Specific Programs					4,300,518
Investment Earnings					356,198
Gifts and Donations					4,660
Miscellaneous					7,703
<i>Total General Revenues</i>					<u>9,178,886</u>
<i>Change in Net Assets</i>					(75,857)
<i>Net Assets at Beginning of Year - Restated (Note 3)</i>					<u>15,025,299</u>
<i>Net Assets at End of Year</i>					<u>\$14,949,442</u>

See Accompanying Notes to the Basic Financial Statements



**Tri-County North Local School District**

Balance Sheet  
Governmental Funds  
June 30, 2007

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$4,583,891	\$421,638	\$989,053	\$5,994,582
Receivables:				
Property Taxes	4,398,237	180,528	403,952	4,982,717
Accounts	62	0	11,301	11,363
Intergovernmental	26,491	0	11,884	38,375
Accrued Interest	25,970	0	0	25,970
Interfund	315,000	0	0	315,000
Inventory of Supplies and Materials	24,860	0	5,927	30,787
Inventory Held for Resale	0	0	1,611	1,611
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	232,548	0	0	232,548
<i>Total Assets</i>	<u>\$9,607,059</u>	<u>\$602,166</u>	<u>\$1,423,728</u>	<u>\$11,632,953</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts Payable	\$11,011	\$0	\$14,593	\$25,604
Accrued Wages and Benefits Payable	789,007	0	8,656	797,663
Intergovernmental Payable	227,846	0	11,418	239,264
Interfund Payable	0	315,000	0	315,000
Deferred Revenue	4,109,115	167,605	387,861	4,664,581
Matured Compensated Absences Payable	0	0	19,623	19,623
<i>Total Liabilities</i>	<u>5,136,979</u>	<u>482,605</u>	<u>442,151</u>	<u>6,061,735</u>
<b>Fund Balances:</b>				
Reserved for Encumbrances	294,916	400,077	29,442	724,435
Reserved for Property Taxes	303,832	12,923	27,041	343,796
Reserved for Textbooks and Instructional Materials	185,824	0	0	185,824
Reserved for Budget Stabilization	36,010	0	0	36,010
Reserved for Bus Purchases	10,714	0	0	10,714
Unreserved, Undesignated (Deficit) Reported in:				
General Fund	3,638,784	0	0	3,638,784
Special Revenue Funds	0	0	409,478	409,478
Debt Service Fund	0	0	515,616	515,616
Capital Projects Funds	0	(293,439)	0	(293,439)
<i>Total Fund Balances</i>	<u>4,470,080</u>	<u>119,561</u>	<u>981,577</u>	<u>5,571,218</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$9,607,059</u>	<u>\$602,166</u>	<u>\$1,423,728</u>	<u>\$11,632,953</u>

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2007

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**Total Governmental Fund Balances** \$5,571,218

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

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

Land	380,453	
Land Improvements	585,740	
Buildings and Improvements	13,503,280	
Furniture, Fixtures, and Equipment	3,490,604	
Vehicles	702,409	
Accumulated Depreciation	(8,172,950)	
<b>Total Capital Assets</b>	<b>10,489,536</b>	<b>10,489,536</b>

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

Property Taxes	156,557	
Charges for Services	416	
Tuition and Fees	10,534	
Interest	14,710	
	<b>182,217</b>	<b>182,217</b>

Long-term liabilities, including bonds and loans payable, accrued interest payable, and capital leases are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Accrued Interest Payable	(2,816)	
General Obligation Bonds Payable	(565,000)	
OASBO Notes Payable	(365,000)	
Accrued Vacation Leave Payable	(33,973)	
Compensated Absences	(326,740)	
<b>Total Liabilities</b>	<b>(1,293,529)</b>	<b>(1,293,529)</b>

*Net Assets of Governmental Activities* \$14,949,442

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2007

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property Taxes	\$3,957,755	\$159,811	\$340,651	\$4,458,217
Intergovernmental	4,501,144	29,174	644,034	5,174,352
Interest	370,241	0	1,933	372,174
Tuition and Fees	55,100	0	57,802	112,902
Rent	16,300	0	0	16,300
Extracurricular Activities	0	0	175,083	175,083
Gifts and Donations	2,661	0	1,999	4,660
Charges for Services	0	0	271,826	271,826
Miscellaneous	3,621	0	4,082	7,703
<i>Total Revenues</i>	<u>8,906,822</u>	<u>188,985</u>	<u>1,497,410</u>	<u>10,593,217</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	4,311,225	61,449	143,804	4,516,478
Special	588,353	0	160,836	749,189
Vocational	166,678	0	2,861	169,539
Support Services:				
Pupils	298,001	0	163,884	461,885
Instructional Staff	413,916	0	13,934	427,850
Board of Education	8,470	0	0	8,470
Administration	1,117,758	37,590	40,263	1,195,611
Fiscal	184,577	3,817	8,420	196,814
Operation and Maintenance of Plant	667,532	501,051	131,186	1,299,769
Pupil Transportation	428,780	0	0	428,780
Central	21,041	0	9,000	30,041
Operation of Non-Instructional Services	1,188	0	379,255	380,443
Extracurricular Activities	210,392	0	175,550	385,942
Capital Outlay	113	0	0	113
Debt Service:				
Principal Retirement	0	0	295,000	295,000
Interest and Fiscal Charges	0	0	63,020	63,020
<i>Total Expenditures</i>	<u>8,418,024</u>	<u>603,907</u>	<u>1,587,013</u>	<u>10,608,944</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>488,798</u>	<u>(414,922)</u>	<u>(89,603)</u>	<u>(15,727)</u>
<b>Other Financing Sources (Uses):</b>				
Transfer In	0	110,858	0	110,858
Transfer Out	(110,858)	0	0	(110,858)
<i>Total Other Financing Sources (Uses)</i>	<u>(110,858)</u>	<u>110,858</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	377,940	(304,064)	(89,603)	(15,727)
<i>Fund Balances at Beginning of Year - Restated (Note 3)</i>	<u>4,092,140</u>	<u>423,625</u>	<u>1,071,180</u>	<u>5,586,945</u>
<i>Fund Balances at End of Year</i>	<u>\$4,470,080</u>	<u>\$119,561</u>	<u>\$981,577</u>	<u>\$5,571,218</u>

**Tri-County North Local School District**  
Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2007

**Net Change in Fund Balances - Total Governmental Funds** (\$15,727)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	202,582	
Depreciation Expense	(586,451)	
Excess of Capital Outlay Under Depreciation Expense		(383,869)

The cost of disposed capital assets is removed from the capital assets account on the statement of net assets resulting in a loss on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets		(6,149)
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Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current fiscal year, these amounts consist of:

General Obligation Bond Principal Payments	125,000	
OASBO Note Principal Payments	170,000	
		295,000

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

Decrease in Accrued Interest		942
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Some revenues that will not be collected for several months after the School District's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds.

Property Taxes	51,590	
Tuition and Fees	3,752	
Interest	(15,976)	
Charges for Services	(236)	
Total		39,130

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

These activities consist of:

Decrease in Accrued Vacation Leave Payable	2,180	
Increase in Compensated Absences	(7,364)	
		(5,184)

*Change in Net Assets of Governmental Activities* (\$75,857)

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
Statement of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual - Budget Basis  
General Fund  
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Property Taxes	\$3,926,440	\$3,796,448	\$3,796,448	\$0
Intergovernmental	4,309,869	4,472,084	4,471,272	(812)
Interest	142,980	169,309	287,855	118,546
Tuition and Fees	21,087	15,764	15,764	0
Rent	16,979	16,300	16,300	0
Gifts and Donations	9,014	2,661	2,661	0
Miscellaneous	994	38	38	0
<i>Total Revenues</i>	<u>8,427,363</u>	<u>8,472,604</u>	<u>8,590,338</u>	<u>117,734</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	4,296,003	4,309,183	4,309,183	0
Special	815,603	608,668	608,668	0
Vocational	148,154	163,791	163,791	0
Support Services:				
Pupils	341,343	306,620	306,620	0
Instructional Staff	436,394	421,894	421,894	0
Board of Education	26,160	23,497	23,497	0
Administration	1,154,139	1,144,988	1,144,988	0
Fiscal	208,022	192,560	192,560	0
Operation and Maintenance of Plant	875,765	782,359	782,359	0
Pupil Transportation	519,068	539,491	539,491	0
Central	36,501	21,761	21,761	0
Extracurricular Activities	232,230	206,745	206,745	0
Capital Outlay	207	113	113	0
<i>Total Expenditures</i>	<u>9,089,589</u>	<u>8,721,670</u>	<u>8,721,670</u>	<u>0</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(662,226)</u>	<u>(249,066)</u>	<u>(131,332)</u>	<u>117,734</u>
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Expenditures	20,200	53,653	53,653	0
Transfers Out	0	0	(118,546)	(118,546)
Advances In	0	94,265	94,265	0
Advances Out	0	(409,265)	(409,265)	0
<i>Total Other Financing Sources (Uses)</i>	<u>20,200</u>	<u>(261,347)</u>	<u>(379,893)</u>	<u>(118,546)</u>
<i>Net Change in Fund Balances</i>	(642,026)	(510,413)	(511,225)	(812)
<i>Fund Balances at Beginning of Year</i>	4,798,567	4,798,567	4,798,567	0
<i>Prior Year Encumbrances Appropriated</i>	<u>206,612</u>	<u>206,612</u>	<u>206,612</u>	<u>0</u>
<i>Fund Balances at End of Year</i>	<u>\$4,363,153</u>	<u>\$4,494,766</u>	<u>\$4,493,954</u>	<u>(\$812)</u>

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2007

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	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$14,031	<u>\$64,155</u>
<b>Liabilities:</b>		
Current Liabilities		
Due to Students	<u>0</u>	<u>\$64,155</u>
<b>Net Assets:</b>		
Held in Trust for Scholarships	<u>\$14,031</u>	

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2007

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	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Interest	\$652
<b>Deductions:</b>	<u>0</u>
<i>Changes in Net Assets</i>	652
<i>Net Assets at Beginning of Year</i>	<u>13,379</u>
<i>Net Assets at End of Year</i>	<u><u>\$14,031</u></u>

See Accompanying Notes to the Basic Financial Statements

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**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**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 consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District currently operates one instructional building, a district office, and a bus garage. The School District is staffed by 55 classified employees and 82 certified full-time personnel who provide services to 1,141 students and other community members.

*Reporting Entity:*

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure 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, three 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 Schools Regional Council of Governments (the “Council”), respectively. These organizations are presented in Note 14 to the basic financial statements.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

*Government-wide Financial Statements:*

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

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

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**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 rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by 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 Funds:*

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

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

*Permanent Improvement Fund* - The Permanent Improvement 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.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Fiduciary Funds:*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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 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.

**C. Measurement Focus**

*Government-wide Financial Statements:*

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

*Fund Financial Statements:*

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

**D. Basis of Accounting**

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

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Revenues - Exchange and Non-exchange Transactions:*

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, tuition, student fees, grants, and interest.

*Deferred Revenue:*

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Expenses/Expenditures:*

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

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

**E. Cash and Cash Equivalents**

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

During fiscal year 2007, the School District invested in Federal Home Loan Mortgage Company 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 revenue credited to the General Fund during fiscal year 2007 amounted to \$370,241, which includes \$87,377 assigned from other School District funds.

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

**F. Inventory**

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

**G. Restricted Assets**

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

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**H. Capital Assets**

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

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

**I. Accrued Liabilities and Long-term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the governmental funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and notes are recognized as a liability in the governmental fund financial statements when due.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**J. Compensated Absences**

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

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

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

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

Vacation leave is accumulated by employees at the applicable vacation rate based on the years of service. The School District will record the liability "Accrued Vacation Leave Payable" for the balance at the end of the fiscal year. School District employees cannot carry vacation leave balances over to the next calendar year.

**K. Net Assets**

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

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

The government-wide statement of net assets reports \$1,294,987 of restricted net assets, none of which are restricted by enabling legislation.



**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**L. Fund Balance Reserves**

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

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

**M. Internal Activity**

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

**N. Estimates**

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

**O. Budgetary Process**

All funds, except the agency fund, 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 expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. The Treasurer has been given the authority to allocate the Board's appropriations to the function and object level.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenues 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 appropriations 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 appropriations 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 3 - RESTATEMENT OF FUND BALANCES/NET ASSETS**

For fiscal year 2007, the School District prepared the financial statements in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. In prior fiscal years, the School District's prepared the financial statements using the modified cash basis of accounting. This change had the following effect on fund balances and net assets:

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Fund Balances at 6/30/2006	\$4,934,919	\$418,375	\$1,097,418	\$6,450,712
Assets	3,936,071	176,979	373,479	4,486,529
Liabilities	<u>(4,778,850)</u>	<u>(171,729)</u>	<u>(399,717)</u>	<u>(5,350,296)</u>
Restated Fund Balances at 6/30/2006	<u>\$4,092,140</u>	<u>\$423,625</u>	<u>\$1,071,180</u>	<u>\$5,586,945</u>

	<u>Net Assets</u>
Net Assets at 6/30/2006	\$5,225,712
Modified Accrual Assets	4,486,529
Modified Accrual Liabilities	(5,386,449)
Capital Assets	10,879,554
Accrued Interest Payable	(3,758)
Compensated Absences	(319,376)
Long-Term (Deferred) Assets	143,087
Restated Net Assets at 6/30/2006	<u>\$15,025,299</u>

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balance – budget and actual – budget basis is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the fund liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. The change in the fair value of investments is not included on the budget basis operating statement. This amount is included as revenue on the GAAP basis operating statement.
5. Advances are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

<u>Net Change in Fund Balance</u>	<u>General</u>
GAAP Basis	\$377,940
Net Adjustments for Revenue Accruals	(164,580)
Net Adjustments for Expenditure Accruals	(9,152)
Unrecorded Cash FY 2006	10,785
Unrecorded Cash FY 2007	10,218
Fair Value of Investments FY 2006	(81,045)
Fair Value of Investments FY 2007	(28,091)
Advances	(315,000)
Transfers	(7,688)
Adjustment for Encumbrances	<u>(304,612)</u>
Budget Basis	<u><u>(\$511,225)</u></u>

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
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);

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

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.

**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, \$2,686,035 of the School District’s bank balance of \$2,810,002 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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, 2007, the School District had the following investment. All investments are in an internal investment pool.

	Fair Value	Maturity Less Than 1 Year
Federal Home Loan Mortgage Company Notes	\$2,489,725	\$2,489,725

*Interest Rate Risk* – The School District’s investment policy addresses interest rate risk by stating that the School District will attempt to match its investments with anticipated cash flow requirements and unless matched to a specific cash flow requirement, investments must mature within five years from the date of purchase. 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.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

*Credit Risk* – The Federal Home Loan Mortgage Company Notes carry a rating of Aaa by Moody’s. The School District’s investment policy limits investments to those authorized by State statute which restricts investments to those that are highly rated or issued by enterprises sponsored by the United States Government.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2007 (other than public utility property tax) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value listed as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

**NOTE 6 - PROPERTY TAXES** (continued)

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2007, was \$303,832 in the General Fund, \$12,923 in the Permanent Improvement Fund, and \$27,041 in the Other Governmental Funds. The amount available as an advance at June 30, 2006, was \$142,525 in the General Fund, \$5,250 in the Permanent Improvement Fund, and \$12,376 in the Other Governmental Funds. On a full accrual basis, collectible property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	<u>2006 Second- Half Collections</u>		<u>2007 First- Half Collections</u>	
	Amount	Percent	Amount	Percent
Real Estate	\$109,950,360	82.79%	\$111,246,270	81.87%
Public Utility Personal	6,104,370	4.60	6,115,490	4.50
General Business Personal	16,748,438	12.61	18,515,818	13.63
Total Assessed Value	<u>\$132,803,168</u>	<u>100.00%</u>	<u>\$135,877,578</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$45.43		\$45.43	

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2007, consisted of property taxes, accounts (tuition and student fees), intergovernmental grants, interest, and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except property taxes are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
<u>Governmental Activities:</u>	
Excess Costs	\$23,919
Transportation Reimbursement	2,572
Food Service	11,884
Total	\$38,375

**NOTE 8 - 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 2007, 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 2007, 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 14).



**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 8 - RISK MANAGEMENT** (continued)

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

Excess Liability Limit per occurrence/per offense/per accident	\$2,000,000
Excess Liability Policy Aggregate	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	
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 2007, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The GRP is divided into numerous tiers based on participants experience. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP tier. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting provides administrative, cost control, and actuarial services to the GRP.

**C. Employee Medical Benefits**

For fiscal year 2007, the School District participated in the Preble County Schools Regional Council of Governments (the "Council"), a shared risk pool consisting of five local school districts and an educational service center (See Note 14). The School District pays monthly premiums to the Council for employee medical benefits. The Council is responsible for the management and operations of the program. Upon withdrawal from the Council, a participant is responsible for the payment of all of the Council's liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System of Ohio**

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling toll-free (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$566,302, \$546,143, and \$524,446, respectively; 83.27 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$15,143 made by the School District and \$24,239 made by the plan members.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 9 - DEFINED BENEFIT PENSION PLANS** (continued)

**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 toll-free (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

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 2007, 10.68 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, 2007, 2006, and 2005, were \$130,765, \$124,707, and \$118,453 respectively; 49.51 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2007, 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 10 - POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated 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 funded on a pay-as-you-go basis.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 10 - POSTEMPLOYMENT BENEFITS** (continued)

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 cost 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, 2007, 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 \$43,562 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$64,695.

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 projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

**NOTE 11 – CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2007, was as follows:

	Restated Balance 6/30/06	Additions	Deductions	Balance 6/30/07
<b><u>Governmental Activities:</u></b>				
Capital Assets, not Being Depreciated:				
Land	\$380,453	\$0	\$0	\$380,453
Capital Assets, Being Depreciated:				
Land Improvements	585,740	0	0	585,740
Buildings and Improvements	13,503,280	0	0	13,503,280
Furniture, Fixtures, and Equipment	3,378,913	202,582	(90,891)	3,490,604
Vehicles	702,409	0	0	702,409
Total Capital Assets, Being Depreciated	18,170,342	202,582	(90,891)	18,282,033
Less Accumulated Depreciation:				
Land Improvements	(367,686)	(23,430)	0	(391,116)
Buildings and Improvements	(4,331,559)	(270,065)	0	(4,601,624)
Furniture, Fixtures, and Equipment	(2,422,488)	(261,677)	84,742	(2,599,423)
Vehicles	(549,508)	(31,279)	0	(580,787)
Total Accumulated Depreciation	(7,671,241)	(586,451) *	84,742	(8,172,950)
Capital Assets, Being Depreciated, Net	10,499,101	(383,869)	(6,149)	10,109,083
Governmental Activities Capital Assets, Net	\$10,879,554	(\$383,869)	(\$6,149)	\$10,489,536

\*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$483,782
Special	4,150
Vocational	5,893
Support Services:	
Pupils	555
Instructional Staff	29,631
Administration	10,736
Fiscal	844
Operation and Maintenance of Plant	1,341
Pupil Transportation	35,038
Operation of Non-Instructional Services	5,381
Extracurricular Activities	9,100
Total Depreciation Expense	<u>\$586,451</u>

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

**NOTE 12 - LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

	Amount Outstanding 6/30/06	Additions	Deductions	Amount Outstanding 6/30/07	Amounts Due Within One Year
Governmental Activities					
School Improvement Bonds					
1986 8.125%	\$490,000	\$0	\$125,000	\$365,000	\$120,000
OASBO Notes					
2002 4.28%	735,000		170,000	565,000	180,000
Compensated Absences	319,376	64,505	57,141	326,740	2,038
Total Governmental Activities Long-Term Liabilities	<u>\$1,544,376</u>	<u>\$64,505</u>	<u>\$352,141</u>	<u>\$1,256,740</u>	<u>\$302,038</u>

*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 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.

Compensated Absences will be paid from the Severance Payment Reserve Fund.

The School District's overall legal debt margin was \$10,124,922, with an unvoted debt margin of \$116,851 at June 30, 2007.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

**NOTE 12 - LONG-TERM OBLIGATIONS** (continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2007, are as follows:

Fiscal Year Ending June 30,	School Improvement Bond Principal	School Improvement Bond Interest	OASBO Notes Principal	OASBO Notes Interest
2008	\$120,000	\$24,781	\$180,000	\$21,080
2009	125,000	14,828	185,000	13,230
2010	120,000	4,875	200,000	4,580
Total	<u>\$365,000</u>	<u>\$44,484</u>	<u>\$565,000</u>	<u>\$38,890</u>

**NOTE 13 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

**B. Insurance Benefits**

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

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS,  
AND SHARED RISK POOL**

**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 \$27,678 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 2007, the School District paid \$2,327 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.



**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 14 - 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 2007, the School District paid \$1,289 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 fiscal 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 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 thirteen member Board of Directors consisting of member superintendents and treasurers, as well as Dave Harcum, an independent consultant of Hylant Group, Inc., and a partner of the Hylant Group, Inc. The Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS,  
AND SHARED RISK POOL** (continued)

**C. Shared Risk Pool**

*Preble County Schools Regional Council of Governments*

The Preble County Schools Regional Council of Governments (the “Council”), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center for the purpose of achieving lower rates for medical insurance. The Council 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 Council and their designated insurance company. The Council 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 Council may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Council. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

**NOTE 15 - 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 fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years. The amount reserved for budget stabilization represents refunds received from the Bureau of Workers’ Compensation. Based upon legislative changes, this is the only money still required to be set aside for this purpose.

The following cash basis information describes the change in the 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.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

**NOTE 15 - SET-ASIDE CALCULATION** (continued)

	Budget <u>Stabilization</u>	Textbooks/ Instructional <u>Materials</u>	Capital <u>Improvements</u>
Set-aside Reserve Balance as of June 30, 2006	\$36,010	\$231,110	\$0
Current Fiscal Year Set-aside Requirement	0	169,616	169,616
Qualifying Disbursements	0	(214,902)	(6,047)
Current Fiscal Year Offsets	0	0	(204,141)
Total	<u>\$36,010</u>	<u>\$185,824</u>	<u>(\$40,572)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$36,010</u>	<u>\$185,824</u>	<u>\$0</u>
Set-aside Reserve Balance as of June 30, 2007	<u>\$36,010</u>	<u>\$185,824</u>	<u>\$0</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements 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 \$221,834.

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The School District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

**B. Litigation**

The School District is not currently party to any legal proceedings.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2007

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**NOTE 17 - CONTRACTURAL COMMITMENTS**

As of June 30, 2007, the School District had a contractual purchase commitment as follows:

<u>Company</u>	<u>Project</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance 6/30/2007</u>
Weatherproofing Technologies	Replacement of Roof Sections	<u>\$673,750</u>	<u>\$288,210</u>	<u>\$385,540</u>

**NOTE 18 - INTERFUND ASSETS/LIABILITIES**

Interfund balances represent unpaid charges for services and General Fund advances, resulting from the time lag between the dates that (1) interfund goods or services are provided, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the General Fund for advancing monies to other funds due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund reimburses the General Fund for the initial advance. The Permanent Improvement Capital Projects Fund had a \$315,000 outstanding advance due to the General Fund at June 30, 2007. This advance is expected to be paid within one year.

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

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	n/a	10.550		\$21,467		\$22,132
Child Nutrition Cluster: National School Breakfast Program	091397-05-PU-07 091397-05-PU-06	10.553	\$6,474 1,838		\$6,474 1,838	
Total National School Breakfast Program			8,312		8,312	
National School Lunch Program	091397-LL-P4-07 091397-LL-P4-06	10.555	73,297 26,267		73,297 26,267	
Total National School Lunch Program			99,564		99,564	
Total Child Nutrition Cluster			107,876		107,876	
Total U.S. Department of Agriculture			107,876	21,467	107,876	22,132
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	091397-6B-SF-2007	84.027	218,636		218,636	
Special Education - Preschool Grant	091397-PG-S1-2007	84.173	4,240		4,240	
Total Special Education Cluster			222,876		222,876	
Grants to Local Educational Agencies (ESEA Title I)	091397-C1-S1-07	84.010	99,589		99,589	
Technology Literacy Challenge	091397-TJS1-2007	84.318	1,036		1,036	
Drug Free Schools	091397-DR-S1-2007	84.186	3,699		3,699	
Improving Teacher Quality	091397-TRS1-2007 091397-TRS1-2006	84.367	51,247		51,247 7,284	
Total Improving Teacher Quality			51,247		58,531	
Innovative Education Program Strategies	091397-C2-S1-2007	84.298	1,610		1,610	
Total U.S. Department of Education			380,057		387,341	
<b>TOTAL FEDERAL ASSISTANCE</b>			<b>\$487,933</b>	<b>\$21,467</b>	<b>\$495,217</b>	<b>\$22,132</b>

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

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

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and 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**

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

**NOTE C – FOOD DISTRIBUTION PROGRAM**

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.

**NOTE D - 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.



# Mary Taylor, CPA

Auditor of State

## 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, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated June 9, 2008. For fiscal year 2007, the School District prepared the financial statements in conformity with generally accepted accounting principles. In prior fiscal years, the School District prepared its financial statements using the modified cash basis of accounting. This change is discussed in Note 3 in the notes to the basic financial statements. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We do not believe that the significant deficiencies described above are material weaknesses.

We also noted a certain internal control matter that we reported to the School District's management in a separate letter dated June 9, 2008.

#### **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 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated June 9, 2008.

We intend this report solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

June 9, 2008





# Mary Taylor, CPA

## Auditor of State

### 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, 2007. 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, 2007.

#### Internal Control Over Compliance

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

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242  
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that the School District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



**Mary Taylor, CPA**  
Auditor of State

June 9, 2008

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2007**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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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 weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<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 weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control 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):	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?	Yes

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

**FINDING NUMBER 2007-001**

**Significant Deficiency**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The School District lacks management oversight in accounting for capital assets. This lack of oversight is illustrated by the following:

Per review of the fiscal year 2005, fiscal year 2006 and fiscal year 2007 disbursement records, ten items totaling \$42,397 were noted that should have been capital asset additions. In addition, we also noted many assets in which the acquisition cost per the additions report did not agree to the cost per the invoice. The total amount of these discrepancies was \$3,687. There were 13 computers and one Riser EZ Fold table that were booked to the capital assets listing twice totaling \$12,011. Due to the errors noted above the depreciation expense for fiscal year 2005, fiscal year 2006 and fiscal year 2007 was misstated by (\$461), \$2,521, and \$2,803 respectively.

Asset useful lives per the School District's capital asset listing do not agree to the asset useful lives per the School District's capital asset policy. The useful lives listed in the School District's capital asset policy are inconsistent with industry standards while the useful lives disclosed in the School District's note disclosure and those used on the capital asset listing are comparable to industry standards.

Total capital assets and accumulated depreciation at June 30, 2006 according to the School District's capital asset report do not agree to GAAP converter's recalculated amounts. The School District's reported capital assets had to be adjusted by the following amounts: Land - (\$48,152), Land Improvements - \$56,252, Building and Improvements - \$566, Furniture, Fixtures and Equipment - \$247,186, and Vehicles - (\$249,124). The School District's reported accumulated depreciation had to be adjusted by the following amounts: Land Improvements - \$156,598, Building and Improvements - \$382,583, Furniture, Fixtures, and Equipment - (\$420,239), and Vehicles - \$43,670.

We recommend the School District record all assets that meet the capital assets criteria at the correct acquisition cost. Depreciation expense should be calculated for all expenses.

We recommend the School District review the useful lives reported on the capital asset listing and revise their capital asset policy accordingly.

## FINDING NUMBER 2007-002

### Material Noncompliance and Significant Deficiency

**Ohio Rev. Code, Section 149.351**, provides that no public records shall be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or part, except as provided by law or under the rules adopted by the records commission provided under Ohio Rev. Code Sections 149.38 to 149.42.

The following was noted during testing of student activity receipts:

#### FFA Fruit Sale:

The amount deposited for the fruit sale was \$5,870. The amount due according to the order forms was \$4,367. Order forms may not have been completed or retained for the sale of these extra items.

#### Class of 2009:

No information was maintained regarding the Little Caesar's Pizza Sale or the American Lemonade Stand sale.

We were able to determine the amount that should have been collected for the Little Caesar's Pizza Sale from the detailed invoice. However, we were not able to determine which receipts deposited with the Treasurer were for the pizza sale because most of the receipts per the Financial Detail Report are not labeled. Only receipts in the amount of \$2,129 were labeled pizza sale. We calculated \$3,356 as the potential revenue for the sale.

We were unable to determine what should have been collected from the American Lemonade Stand sale because a detailed invoice was not provided. The two fundraisers overlapped and we were not able to distinguish which receipts related to each fundraiser.

To improve internal controls over the School District's student activities it is recommended that School District:

- Pre-numbered duplicate receipts should be issued by all faculty and/or student advisors. Cash registers should be used when applicable. For each receipt recorded by the School District Treasurer's office the relevant advisor should be able to provide documentation for the entire receipt amount. This increases accountability over the receipting process;
- All order forms should be reviewed for accuracy and maintained by activity advisors. Activity advisors should maintain documentation of student sales and amounts due from students.
- Pay-in receipts should be reconciled to the amount deposited per the sales project potential forms.
- Detailed invoices should be maintained for student fundraising merchandise ordered.
- Receipts should include descriptions when being posted to the accounting system.

We recommend that the School District review their current policy. Additional controls and procedures are explained in the Auditor of State (AOS) "Guidelines for Developing Policies for Student Activity Programs" available at the AOS web site: [www.auditor.state.oh.us](http://www.auditor.state.oh.us), under publications, scroll down to Manuals, Handbooks, Forms & Technical Resources and click on Local Government Manuals & Handbooks.

**FINDING NUMBER 2007-002  
(Continued)**

**Officials' Response:**

We did not receive a response from Officials to the findings reported above.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None.

TRI-COUNTY NORTH LOCAL SCHOOL DISTRICT  
PREBLE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2006-001	Ohio Admin. Code Section 117-2-03(B), failure to report in accordance with generally accepted accounting principles	Yes	Corrected







**Mary Taylor, CPA**  
Auditor of State

**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  
JUNE 24, 2008**