



**Auditor of State  
Betty Montgomery**



**NATIONAL TRAIL LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

National Trail Local School District  
Preble County  
6940 Oxford-Gettysburg Road  
New Paris, Ohio 45347

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 the National Trail Local School District, Preble County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the National Trail Local School District, Preble County, Ohio, as of June 30, 2004, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2004, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



**Betty Montgomery**  
Auditor of State

May 17, 2006

**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004

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The discussion and analysis of National Trail Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

In total, net assets decreased \$429,993 which represents a 25.6 percent decrease from 2003.

General receipts accounted for \$7,905,925 in receipts or 84.9 percent of all receipts. Program specific receipts in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$1,409,953 or 15.1 percent of total receipts of \$9,315,878.

The School District had \$9,745,871 in disbursements; only \$1,409,953 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts (primarily taxes and entitlements) were \$7,905,925, which were not adequate to provide for these programs.

Among major funds, the General Fund had \$7,974,884 in receipts and \$8,329,332 in disbursements. The General Fund's balance decreased \$336,517 over 2003.

**Using this Annual Financial Report**

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

*Report Components*

The Statement of Net Assets and the Statement of Activities provide information about the cash activities of the School District as a whole.

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

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

**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004

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*Basis of Accounting*

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

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

**Reporting the School District as a Whole**

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

The Statement of Net Assets and the Statement of Activities reflect how the School District did financially during 2004, within the limitations of modified cash basis accounting. The Statement of Net Assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The Statement of Activities compares cash disbursements with program cash receipts for each governmental program. Program cash receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program cash receipts. The comparison of cash disbursements with program cash receipts identifies how each governmental program draws from the School District's general receipts.

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

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

*Fund Financial Statements*

Fund financial statements provide detailed information about the School District's major funds, not the School District as a whole. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, Bond Retirement Fund, and the Classroom Facilities Fund.



**National Trail Local School District**  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2004

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*Governmental Funds*

The School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year-end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

**The School District as a Whole**

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

		Table 1 Net Assets	
		2003	2004
<b>Assets</b>			
Current Assets		\$1,676,979	\$1,246,986
<b>Net Assets</b>			
Restricted		971,067	1,022,809
Unrestricted		705,912	224,177
<i>Total Net Assets</i>		\$1,676,979	\$1,246,986

Total net assets of governmental activities decreased by \$429,993, due to increased costs for health insurance and special education.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year National Trail Local School District has prepared financial statements following GASB Statement No. 34 under the modified cash basis, receipt and disbursement comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004

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Table 2  
Changes in Net Assets

	2004
<b>Receipts</b>	
Program Receipts:	
Charges for Services	\$463,903
Operating Grants and Contributions	904,746
Capital Grants and Contributions	41,304
<i>Total Program Receipts</i>	1,409,953
General Receipts:	
Property Taxes	2,492,085
Grants and Entitlements not Restricted to Specific Programs	4,464,105
Income Tax	883,617
Investment Earnings	17,392
Gifts and Donations	9,666
Miscellaneous	39,060
<i>Total General Receipts</i>	7,905,925
<i>Total Receipts</i>	9,315,878
<b>Program Disbursements</b>	
Instruction:	
Regular	4,369,826
Special	1,126,178
Vocational	230,481
Adult Continuing	1,115
Support Services:	
Pupils	473,953
Instructional Staff	311,025
Board of Education	19,123
Administration	725,930
Fiscal	164,388
Operation and Maintenance of Plant	712,325
Pupil Transportation	589,036
Central	91,645
Operation of Non-Instructional Services	382,149
Extracurricular Activities	196,807
Capital Outlay	18,526
Principal Retirement	141,882
Interest and Fiscal Charges	191,482
<i>Total Disbursements</i>	9,745,871
<i>Decrease in Net Assets</i>	(429,993)
<i>Net Assets Beginning of Year</i>	1,676,979
<i>Net Assets End of Year</i>	\$1,246,986

**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004

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**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 26.8 percent of receipts for governmental activities for the National Trail Local School District for fiscal year 2004. Grants and Entitlements Not Restricted to Specific Programs made up 47.9 percent of receipts for governmental activities of the School District for fiscal year 2004.

Instruction comprises 58.8 percent of School District disbursements. Support Services disbursements make up 31.7 percent of the disbursements.

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 those services supported by tax revenue and unrestricted State entitlements.

Since this is the first year the School District has prepared financial statements following GASB Statement No. 34 under the modified cash basis, total cost of services and net cost of services comparisons to 2003 are not available. In future year, when prior information is available, a comparative analysis of government wide data will be presented.

Table 3  
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction:		
Regular	\$4,369,826	(\$4,171,796)
Special	1,126,178	(614,764)
Vocational	230,481	(178,113)
Adult Continuing	1,115	(1,115)
Support Services:		
Pupils	473,953	(355,011)
Instructional Staff	311,025	(295,323)
Board of Education	19,123	(19,123)
Administration	725,930	(695,919)
Fiscal	164,388	(164,388)
Operation and Maintenance of Plant	712,325	(699,343)
Pupil Transportation	589,036	(572,482)
Central	91,645	(87,624)
Operation of Non-Instructional Services	382,149	(26,152)
Extracurricular Activities	196,807	(102,875)
Capital Outlay	18,526	(18,526)
Principal Retirement	141,882	(141,882)
Interest and Fiscal Charges	191,482	(191,482)
<i>Total Expenses</i>	<i>\$9,745,871</i>	<i>(\$8,335,918)</i>

**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004

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**The School District's Funds**

The School District's major funds are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$9,315,878 and disbursements of 9,745,871. The General Fund had an decrease in fund balance of \$336,517 due primarily to increased costs associated with the purchase of medical insurance for District employees. The Bond Retirement Fund had a decrease in fund balance of \$14,078 due to an increase in the amount due for principal payments. The Classroom Facilities Fund had a decrease of 14,926 due to additional payments for maintenance related expenditures for the K-8 wings of the district facilities.

**General Fund Budgeting Highlights**

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

During the course of fiscal year 2004 the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund original and final budgeted amounts is listed on page 14, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For the General Fund, final budget basis receipts were \$7,899,398 which was below the original estimates of \$8,349,951. Final Budget basis expenses were \$8,601,866 which was \$200,238 below the original estimates of \$8,802,104.

The School District's ending unobligated General Fund cash balance was \$278,097.

**Debt Administration**

At June 30, 2004 the School District had \$3,273,199 in debt outstanding, of which \$144,166 is due within one year. Table 4 summarizes the debt outstanding.

Table 4  
Outstanding Debt at Fiscal Year-End  
Governmental Activities

	<u>2003</u>	<u>2004</u>
Energy Conservation Notes	\$340,081	\$298,199
General Obligation Bonds	<u>3,075,000</u>	<u>2,975,000</u>
Total	<u><u>\$3,415,081</u></u>	<u><u>\$3,273,199</u></u>

The Energy Conservation Note Payable was issued on August 28, 2002, in the amount of \$380,000 for the purpose of providing energy conservation measures for the School District, under the authority of the Ohio Revised Code Sections 113.06(G) and 3313.372. The note was issued for an eight year period with final maturity during fiscal year 2010. The debt will be retired from the anticipated savings over the eight years and will be paid from the General Fund.

**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004

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On December 1, 1996, the School District issued \$3,509,440 in voted general obligation bonds for the purpose of the construction of a new school building in the School District. The bonds were issued for a twenty-two year period with final maturity at December 1, 2018. The debt will be retired from the Debt Service Fund.

The School District's overall legal debt margin was \$7,017,551 with an unvoted debt margin of \$105,470 and an Energy Conservation debt margin of \$651,027 at June 30, 2004.

For more information on Debt, see Note 13 of the Basic Financial Statements.

### **Current Financial Issues and Concerns**

Any significant changes in state funding, which accounts for over 60 percent of the School District's revenues, will have a significant effect on the School District's financial future and will have an immediate and ripple effect on the financial health of the School District. Large increases in the cost of health insurance and energy costs could have had a chilling effect on the School District, but cuts to staff through attrition and expenditure conservation measures have helped in maintaining programs.

### **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 Steve Dearth, Treasurer, 6940 Oxford-Gettysburg Road, New Paris, Ohio 45347, or email at [ntbo\\_sd@swoca.net](mailto:ntbo_sd@swoca.net).

**National Trail Local School District**  
Statement of Net Assets - Modified Cash Basis  
June 30, 2004

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,246,986</u>
<b>Net Assets</b>	
Restricted for:	
Debt Service	500,294
Capital Outlay	200,376
Other Purposes	177,826
Set-Asides	144,313
Unrestricted	<u>224,177</u>
<i>Total Net Assets</i>	<u><u>\$1,246,986</u></u>

See Accompanying Notes to the Basic Financial Statements

**National Trail Local School District**  
Statement of Activities - Modified Cash Basis  
For the Fiscal Year Ended June 30, 2004

	Program Cash Receipts				Net (Disbursements)
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Receipts and Changes in Net Assets
<b>Governmental Activities</b>					<b>Governmental Activities</b>
Instruction:					
Regular	\$4,369,826	\$106,851	\$66,429	\$24,750	(\$4,171,796)
Special	1,126,178	0	511,414	0	(614,764)
Vocational	230,481	0	52,368	0	(178,113)
Adult Continuing	1,115	0	0	0	(1,115)
Support Services:					
Pupils	473,953	0	118,942	0	(355,011)
Instructional Staff	311,025	0	15,702	0	(295,323)
Board of Education	19,123	0	0	0	(19,123)
Administration	725,930	0	30,011	0	(695,919)
Fiscal	164,388	0	0	0	(164,388)
Operation and Maintenance of Plant	712,325	6,250	6,732	0	(699,343)
Pupil Transportation	589,036	0	0	16,554	(572,482)
Central	91,645	0	4,021	0	(87,624)
Operation of Non-Instructional Services	382,149	265,855	90,142	0	(26,152)
Extracurricular Activities	196,807	84,947	8,985	0	(102,875)
Capital Outlay	18,526	0	0	0	(18,526)
Principal Retirement	141,882	0	0	0	(141,882)
Interest and Fiscal Charges	191,482	0	0	0	(191,482)
<b>Totals</b>	<b>\$9,745,871</b>	<b>\$463,903</b>	<b>\$904,746</b>	<b>\$41,304</b>	<b>(8,335,918)</b>
<b>General Receipts</b>					
Property Taxes Levied for:					
General Purposes					2,210,777
Debt Service					236,414
Other Purposes					44,894
Income Tax					883,617
Grants and Entitlements not Restricted to Specific Programs					4,464,105
Investment Earnings					17,392
Gifts and Donations					9,666
Miscellaneous					39,060
<b>Total General Receipts</b>					<b>7,905,925</b>
<b>Change in Net Assets</b>					<b>(429,993)</b>
<b>Net Assets Beginning of Year - (Restated - Note 3)</b>					<b>1,676,979</b>
<b>Net Assets End of Year</b>					<b>\$1,246,986</b>

See Accompanying Notes to the Basic Financial Statements

**National Trail Local School District**  
Statement of Assets and Fund Balances - Modified Cash Basis  
Governmental Funds  
June 30, 2004

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$197,916	\$500,294	\$198,160	\$206,303	\$1,102,673
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	144,313	0	0	0	144,313
<i>Total Assets</i>	<u>\$342,229</u>	<u>\$500,294</u>	<u>\$198,160</u>	<u>\$206,303</u>	<u>\$1,246,986</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	\$64,129	\$74	\$10,530	\$37,340	\$112,073
Reserved for Budget Stabilization	144,313	0	0	0	144,313
Unreserved, Designated:					
Designated for Budget Stabilization	133,787	0	0	0	133,787
Unreserved, Undesignated, Reported in:					
Special Revenue Funds	0	0	0	166,747	166,747
Debt Service Fund	0	500,220	0	0	500,220
Capital Projects Funds	0	0	187,630	2,216	189,846
<i>Total Fund Balances</i>	<u>\$342,229</u>	<u>\$500,294</u>	<u>\$198,160</u>	<u>\$206,303</u>	<u>\$1,246,986</u>

See Accompanying Notes to the Basic Financial Statements



**National Trail Local School District**  
Statement of Cash Receipts, Disbursements and Changes in  
Fund Balances - Modified Cash Basis  
Governmental Funds  
For the Fiscal Year Ended June 30, 2004

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Property Taxes	\$2,210,777	\$236,414	\$0	\$44,894	\$2,492,085
Income Tax	883,617	0	0	0	883,617
Intergovernmental	4,800,311	30,011	0	567,851	5,398,173
Interest	15,263	0	2,129	0	17,392
Tuition and Fees	11,434	0	0	57,920	69,354
Rent	6,250	0	0	0	6,250
Extracurricular Activities	0	0	0	122,444	122,444
Gifts and Donations	12,666	0	0	8,982	21,648
Charges for Services	0	0	0	265,855	265,855
Miscellaneous	34,566	0	0	4,494	39,060
<i>Total Receipts</i>	<u>7,974,884</u>	<u>266,425</u>	<u>2,129</u>	<u>1,072,440</u>	<u>9,315,878</u>
<b>Disbursements</b>					
Current:					
Instruction:					
Regular	4,172,674	0	0	197,152	4,369,826
Special	896,124	0	0	230,054	1,126,178
Vocational	227,967	0	0	2,514	230,481
Adult Continuing	1,115	0	0	0	1,115
Support Services:					
Pupils	354,397	0	0	119,556	473,953
Instructional Staff	285,763	0	0	25,262	311,025
Board of Education	19,123	0	0	0	19,123
Administration	718,815	5,745	0	1,370	725,930
Fiscal	164,388	0	0	0	164,388
Operation and Maintenance of Plant	640,325	0	0	72,000	712,325
Pupil Transportation	588,287	0	0	749	589,036
Central	82,408	0	0	9,237	91,645
Operation of Non-Instructional Services	3,178	0	0	378,971	382,149
Extracurricular Activities	116,162	0	0	80,645	196,807
Capital Outlay	0	0	17,055	1,471	18,526
Debt Service:					
Principal Retirement	41,882	100,000	0	0	141,882
Interest and Fiscal Charges	16,724	174,758	0	0	191,482
<i>Total Disbursements</i>	<u>8,329,332</u>	<u>280,503</u>	<u>17,055</u>	<u>1,118,981</u>	<u>9,745,871</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(354,448)</u>	<u>(14,078)</u>	<u>(14,926)</u>	<u>(46,541)</u>	<u>(429,993)</u>
<b>Other Financing Sources (Uses)</b>					
Advances In	121,577	0	0	81,072	202,649
Advances Out	(81,072)	0	0	(121,577)	(202,649)
Transfer In	0	0	0	22,574	22,574
Transfer Out	(22,574)	0	0	0	(22,574)
<i>Total Other Financing Sources (Uses)</i>	<u>17,931</u>	<u>0</u>	<u>0</u>	<u>(17,931)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(336,517)</u>	<u>(14,078)</u>	<u>(14,926)</u>	<u>(64,472)</u>	<u>(429,993)</u>
<i>Fund Balances Beginning of Year - Restated (Note 3)</i>	<u>678,746</u>	<u>514,372</u>	<u>213,086</u>	<u>270,775</u>	<u>1,676,979</u>
<i>Fund Balances End of Year</i>	<u>\$342,229</u>	<u>\$500,294</u>	<u>\$198,160</u>	<u>\$206,303</u>	<u>\$1,246,986</u>

See Accompanying Notes to the Basic Financial Statements

**National Trail Local School District**  
Statement of Receipts, Disbursements and  
Changes in Fund Balance - Budget and Actual - Budget Basis  
General Fund  
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Receipts</b>				
Property Taxes	\$2,275,800	\$2,210,628	\$2,210,777	\$149
Income Tax	939,963	883,617	883,617	0
Intergovernmental	5,062,698	4,756,060	4,756,060	0
Interest	40,000	15,100	15,263	163
Tuition and Fees	10,150	11,499	11,434	(65)
Rent	8,200	6,250	6,250	0
Gifts and Donations	9,500	12,666	12,666	0
Miscellaneous	3,640	3,578	4,823	1,245
<i>Total Receipts</i>	<u>8,349,951</u>	<u>7,899,398</u>	<u>7,900,890</u>	<u>1,492</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	4,252,418	4,100,246	4,066,049	34,197
Special	970,283	930,231	897,250	32,981
Vocational	227,037	234,732	229,277	5,455
Adult Continuing	5,000	5,000	1,115	3,885
Other	0	45,000	108,292	(63,292)
Support Services:				
Pupils	339,498	378,916	359,189	19,727
Instructional Staff	263,762	273,162	287,615	(14,453)
Board of Education	39,500	21,364	19,273	2,091
Administration	735,260	725,978	720,292	5,686
Fiscal	180,261	173,223	164,646	8,577
Operation and Maintenance of Plant	748,562	722,649	659,375	63,274
Pupil Transportation	785,104	727,656	609,599	118,057
Central	77,184	90,253	90,089	164
Operation of Non-Instructional Services	2,330	3,160	3,178	(18)
Extracurricular Activities	117,300	111,690	116,162	(4,472)
Debt Service:				
Principal Retirement	41,882	41,882	41,882	0
Interest and Fiscal Charges	16,723	16,724	16,724	0
<i>Total Disbursements</i>	<u>8,802,104</u>	<u>8,601,866</u>	<u>8,390,007</u>	<u>211,859</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(452,153)</u>	<u>(702,468)</u>	<u>(489,117)</u>	<u>213,351</u>
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditures	64,000	73,994	73,994	0
Refund of Prior Year Receipts	0	0	(3,457)	(3,457)
Advances In	0	0	121,577	121,577
Advances Out	0	0	(81,072)	(81,072)
Transfers In	0	100,000	0	(100,000)
Transfers Out	0	(30,000)	(22,574)	7,426
<i>Total Other Financing Sources (Uses)</i>	<u>64,000</u>	<u>143,994</u>	<u>88,468</u>	<u>(55,526)</u>
<i>Net Change in Fund Balances</i>	<u>(388,153)</u>	<u>(558,474)</u>	<u>(400,649)</u>	<u>157,825</u>
<i>Fund Balances at Beginning of Year</i>	<u>508,272</u>	<u>508,272</u>	<u>508,272</u>	<u>0</u>
<i>Prior Year Encumbrances Appropriated</i>	<u>170,474</u>	<u>170,474</u>	<u>170,474</u>	<u>0</u>
<i>Fund Balances at End of Year</i>	<u>\$290,593</u>	<u>\$120,272</u>	<u>\$278,097</u>	<u>\$157,825</u>

See Accompanying Notes to the Basic Financial Statements

**National Trail Local School District**  
Statement of Fiduciary Net Assets - Modified Cash Basis  
Fiduciary Fund  
June 30, 2004

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$66,154</u></u>
<b>Liabilities</b>	
Current Liabilities	
Due to Students	<u><u>\$66,154</u></u>

See Accompanying Notes to the Basic Financial Statements

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**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The National Trail Local School District, Preble County, Ohio (the “School District”), is a political body incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is organized under article VI sections 2 and 3 of the Constitution of the State of Ohio.

The National Trail Local School District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the School District’s instructional support facilities staffed by approximately 53 non-certified and 95 certified teaching personnel and administrative employees providing education to 1,092 students.

*Reporting Entity:*

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization’s resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District participates in three jointly governed organizations, two insurance purchasing pools, and one shared risk pool. These organizations include the Southwest Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Instructional Technology Association (SOITA), the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan (GRP), the Ohio School Plan, and the Preble County Consortium (the “Consortium”) respectively. These organizations are presented in Note 14 to the basic financial statements.

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

As discussed further in Section C of Note 2, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles include (GAAP) all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. For governmental activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The more significant of the School District's accounting policies are described below.

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

*Government-wide Financial Statements:*

The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide statements usually distinguish between those activities that are governmental and those that are business-type. The School District, however, does not have any activities which are presented as business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

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

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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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. 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**

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The School District divides its funds into two categories: governmental and fiduciary.

*Governmental Funds:*

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants), and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

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

*Bond Retirement Fund* - The Bond Retirement Debt Service Fund is used to account for various revenues collected for the payment of general obligated bonded debt.

*Classroom Facilities Fund* - The Classroom Facilities Capital Projects Fund is used to account for monies received and expended in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

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

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

*Fiduciary Fund:*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund. 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. Basis of Accounting**

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

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

**D. Budgetary Process**

All funds, except 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 cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources that were in effect at the time final appropriations were passed by the Board, including all supplemental appropriations.



**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

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.

**E. Cash and Investments**

To improve cash management, cash received by the School District is pooled and invested. 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 2004, the School District’s investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2004 was \$15,263, which included \$12,454 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 and cash equivalents.

**F. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for budget stabilization.

**G. Interfund Receivables/Payables**

The School District reports on the fund financial statements advances-in and advances-out for interfund loans. These advances are eliminated on the statement of activities. These items are not reflected as assets and liabilities in the accompanying financial statements.

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

**H. Employer Contributions to Cost-Sharing Pension Plans**

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**I. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations and federal and State grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide Statement of Net Assets reports \$1,022,809 of restricted net assets, of which \$497,791 is restricted by enabling legislation.

**J. Fund Balance Reserves and Designation**

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and budget stabilization. Fund Balance designations are established to indicate tentative planned expenditures to financial resources. The designations reflect the School District's intentions and are subject to change. The designations are reported as part of unreserved fund balance. The designation for budget stabilization represents money set aside by the Board of Education in excess of what is required by statute.

The reserve for budget stabilization represents money required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

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

Last year the School District reported fund financial statements by fund type using the cash basis of accounting. By implementing the other comprehensive basis of accounting described in Note 2, the fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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

As described in Note 2, the School District made the following modifications to the cash basis of accounting in implementing the modified cash basis of accounting:

	General	Bond Retirement	Classroom Facilities	Other Governmental	Total Governmental
Fund Balance June 30, 2003	\$678,746	\$514,372	\$213,086	\$209,714	\$1,615,918
Fund Reclassifications	0	0	0	61,061	61,061
Adjusted Fund Balance/ Governmental Activities Net Assets June 30, 2003	<u>\$678,746</u>	<u>\$514,372</u>	<u>\$213,086</u>	<u>\$270,775</u>	<u>\$1,676,979</u>

**NOTE 4 - COMPLIANCE AND ACCOUNTABILITY**

**A. Compliance**

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

Ohio Revised Code Section 149.351 prohibits the removal, destruction, mutilation or otherwise damaging public records. The District could not locate all of the records for extracurricular activities.

Ohio Revised Code Section 9.38 requires money to be deposited in a timely manner. 20% of athletic gate receipts were not deposited accordingly.

Ohio Revised Code Section 5705.10 prohibits School District funds from having negative balances. The School District had negative fund balances in some funds.

Ohio Revised Code Section 135.18 requires that the School District's monies be adequately collateralized. At July 31, 2003 School District deposits exceeded collateral by \$300,788.

**B. Accountability**

The Food Service Fund had a deficit fund balance at June 30, 2004, of \$19,138. The deficit in the Food Service Fund is a result of lunch prices not covering operating costs. The School District will continue to monitor this deficit and raise lunch prices or make transfers from the General Fund to alleviate this deficit, if necessary.

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis).

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

	<u>Net Change in Fund Balance</u>
	<u>General</u>
Modified Cash Basis	(\$336,517)
Adjustment for Encumbrances	<u>(64,132)</u>
Budget Basis	<u><u>(\$400,649)</u></u>

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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

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

Interim monies held by the School District 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 payment of principal and interest by the United States;

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

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 or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**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, \$1,237,244 of the School District's bank balance of \$1,366,293 was exposed to custodial credit risk because it was uninsured and collateralized, with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

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.

**NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

**B. Investments**

*Credit Risk* - As of June 30, 2004, the School District's only investment was STAROhio. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

**NOTE 7 - PROPERTY TAXES**

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

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

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

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

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

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

**NOTE 7 - PROPERTY TAXES** (continued)

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

	<u>2003 Second- Half Collections</u>		<u>2004 First- Half Collections</u>	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$92,163,580	87.88%	\$92,422,870	87.63%
Public Utility	7,841,000	7.48	8,197,620	7.77
Tangible Personal Property	4,866,440	4.64	4,849,030	4.60
<b>Total</b>	<b><u>\$104,871,020</u></b>	<b><u>100.00%</u></b>	<b><u>\$105,469,520</u></b>	<b><u>100.00%</u></b>
Tax Rate per \$1,000 of Assessed Valuation	\$35.18		\$35.18	

**NOTE 8 – INTERFUND ADVANCES**

At June 30, 2004, the General Fund had an unpaid interfund cash advance in the amount of \$81,072, for a short-term loan made to other governmental funds. This is expected to be received within one year.

**NOTE 9 - RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Selective Insurance Company of South Carolina for property insurance and Auto Owners Mutual Insurance Company for fleet insurance.

During the fiscal year 2004, 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 the 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). The School District contracts the liability insurance with OSP.

Insurance coverage provided includes the following:

Building and Contents – Replacement Cost (\$1,000 deductible)	\$26,861,341
Automobile Liability	1,000,000
Uninsured Motorists	1,000,000

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 9 - RISK MANAGEMENT** (continued)

Educational General Liability	
Bodily Injury and Property Damage	
Per Occurrence	\$1,000,000
Sexual Abuse Injury	
Per Occurrence	1,000,000
Personal and Advertising Injury	
Per Occurrence	1,000,000
Fire Damage	
Per Occurrence	500,000
Medical Expense	
Per Person	10,000
Per Occurrence	10,000
General Aggregate Limit	3,000,000
Products - Completed Operations Limit	1,000,000
Employers' Liability and Stop Gap Endorsement	
Bodily Injury By Accident	
Per Occurrence	1,000,000
Bodily Injury By Disease	
Per Employee	1,000,000
Aggregate	1,000,000
Employee Benefits Liability	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000
Educational Legal Liability Coverage From	
Errors and Omissions Injury Limit (\$5,000 deductible)	1,000,000
Aggregate	2,000,000
Employment Practices Injury Limit (\$5,000 deductible)	1,000,000
Aggregate	2,000,000

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 2004, 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 workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control and actuarial services to the GRP.



**NOTE 9 - RISK MANAGEMENT** (continued)

**C. Employee Medical Benefits**

For fiscal year 2004, the School District participated in the Preble County Consortium (the Consortium), a shared risk pool consisting of five local School Districts and an educational service center (See Note 14). The School District pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$99,503, \$180,516, and \$162,524, respectively; the full amount has been contributed for fiscal years 2004, 2003 and 2002.

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

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

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 10 - DEFINED BENEFIT PENSION PLANS** (continued)

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

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

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

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002, were \$554,958, \$553,968 and \$535,884, respectively; the full amount has been contributed for fiscal years 2005, 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$3,542 made by the School District and \$3,373 made by the plan members.

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$42,689 for fiscal year 2004.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits during fiscal year 2004 equaled \$70,629.

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

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

**NOTE 12 - OTHER EMPLOYEE BENEFITS**

**A. Life Insurance**

Life Insurance is provided by the School District to most employees through Jefferson Pilot Financial.

**B. Dental Care**

Dental Insurance is provided by the School District to most employees through Anthem Blue Cross Blue Shield.

**C. Vision Care**

Vision Insurance is provided by the School District to most employees through Principal Life Insurance Company.

**NOTE 13 - LONG-TERM OBLIGATIONS**

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

	Amount Outstanding 6/30/03	Additions	Deductions	Amount Outstanding 6/30/04	Amounts Due Within One Year
Governmental Activities					
Energy Conservation Note Payable 2002 4.85%	\$340,081	\$0	\$41,882	\$298,199	\$44,166
School Improvement General Obligation Bonds 1997 5.73%	3,075,000	0	100,000	2,975,000	100,000
Total Governmental Activities Long-Term Liabilities	<u>\$3,415,081</u>	<u>\$0</u>	<u>\$141,882</u>	<u>\$3,273,199</u>	<u>\$144,166</u>

*Notes Payable*

The Energy Conservation Note Payable was issued on August 28, 2002, in the amount of \$380,000 for the purpose of the providing energy conservation measures for the School District, under the authority of the Ohio Revised Code Sections 113.06(G) and 3313.372. The note was issued for an eight year period with final maturity during fiscal year 2010. The debt will be retired from the anticipated savings over the eight years and will be paid from the General Fund.

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 13 - LONG-TERM OBLIGATIONS** (continued)

*School Improvement Bonds*

On December 1, 1996, the School District issued \$3,509,440 in voted general obligation bonds for the purpose of the construction of a new school building in the School District. The bonds were issued for a twenty-two year period with final maturity at December 1, 2018. The debt will be retired from the Debt Service Fund.

The School District's overall legal debt margin was \$7,017,551 with an unvoted debt margin of \$105,470 and an Energy Conservation debt margin of \$651,027 at June 30, 2004.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$144,166	\$184,762	\$328,928
2006	156,100	177,520	333,620
2007	173,367	169,492	342,859
2008	190,746	159,539	350,285
2009	203,226	147,779	351,005
2010-2014	1,025,594	544,747	1,570,341
2015-2019	1,380,000	205,800	1,585,800
Total	\$3,273,199	\$1,589,639	\$4,862,838

**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS/ INSURANCE PURCHASING POOLS/ 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 \$25,637 for membership 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.

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

*Southwestern Ohio Educational Purchasing Council*

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

Payments to SOEPC are made from the General Fund. During fiscal year 2004, the School District paid \$1,715 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.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a State or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2004, the School District paid \$825 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

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

**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.

*Ohio School Plan*

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

**C. Shared Risk Pool**

*Preble County Consortium*

The Preble County Consortium (the Consortium), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center. The Consortium is governed by an advisory committee consisting of each member's superintendent or designee from each participating school district. Premiums are paid on a monthly basis to the Consortium and their designated insurance company. The Consortium is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Consortium may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Consortium. Financial information can be obtained from Teresa Freeman, who serves as Treasurer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 15 - SET-ASIDE CALCULATIONS**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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, which must be spent for specified purposes. 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.

	<u>Budget Stabilization</u>	<u>Textbooks and Instructional Materials</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of			
June 30, 2003	\$144,313	(\$479,143)	\$0
Current Year Set-aside Requirement	0	167,897	167,897
Qualifying Disbursements	0	(138,128)	(140,226)
Current Year Offsets	0	0	(187,830)
Totals	<u>\$144,313</u>	<u>(\$449,374)</u>	<u>(\$160,159)</u>
Set-aside Balance Carried Forward to			
Future Fiscal Years	<u>\$144,313</u>	<u>(\$449,374)</u>	<u>\$0</u>
Set-aside Reserve Balance as of			
June 30, 2004	<u>\$144,313</u>	<u>\$0</u>	<u>\$0</u>

The School District had qualifying cash disbursements during the fiscal year that reduced the textbooks and instructional materials set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years. The total reserve balance for the set-asides at the end of the fiscal year was \$144,313.



**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 16 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

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**Auditor of State  
Betty Montgomery**

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

National Trail Local School District  
Preble County  
6940 Oxford-Gettysburg Road  
New Paris, Ohio 45347

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 the National Trail Local School District (the School District) as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 17, 2006 in which we noted the School District prepares its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2004-002 and 2004-006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weakness. In a separate letter to the School District's management dated May 17, 2006 we reported other matters involving internal control over financial reporting which we did not deem as reportable conditions.

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)

### **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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-005. In a separate letter to the School District's management dated May 17, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

**Betty Montgomery**  
Auditor of State

May 17, 2006

**NATIONAL TRAIL LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2004-001**

**Material Noncompliance**

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

**FINDING NUMBER 2004-002**

**Material Noncompliance/Reportable Condition**

**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. **Board policy EHA** states "All records are the property of the School District and are not to be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or part, except as provided by law or under rules adopted by the School District Records Commission. Such records shall be delivered by outgoing officials and employees to their successors and shall not be removed, transferred or destroyed unlawfully."

- The Future Farmers of America (FFA) could not provide individual order forms its members used for its annual fruit sale, with the exception of one member. These forms are in triplicate however no copies of the forms were maintained by the FFA Director.
- The School District could not locate student activity budget/purpose clauses and all sales potential forms.
- The sales potential forms provided did not have the bottom of the form completed and they were not signed by the appropriate individuals.
- Pre-numbered duplicate receipts were not always used or maintained for student activities.
- Amounts sold and the sale prices for FFA fund raisers were not retained. Therefore, a comparison of the receipts recorded in the financial system and the amount that should have been collected could not be performed.

Accordingly we recommend that:

- All student activity sponsors (and all School District Employees) should maintain their records in compliance with the aforementioned Ohio Revised Code and Board Policy which states that "financial records must be kept for not less than 10 years and may only be destroyed in accordance with provisions of Ohio Law and concurrence of the District Records Commission, the Auditor of State and the Ohio Historical Society".

**FINDING NUMBER 2004-002**  
**(Continued)**

- Prior to any financial transactions by an authorized student activity, a purpose clause should be completed and submitted to and approved by the Board of Education. This will help ensure compliance with **Board Policy IGDF(8)** limiting the number of fund raising activities so as not to become a burden or nuisance to the community.
- Sales project potential forms should be completed for all fund raisers, be it student activities or athletic clubs, indicating a proposed budget. The proposed sales project potential form should be signed by the activity sponsor, building principal and treasurer/designee. Once the fund raiser is completed, the bottom of the form should be completed indicating actual results from the fund raiser and signed by the same personnel. This will enhance the School District's Compliance with **Board Policy IGDF(8)**.
- 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 2004-003**

**Material Noncompliance**

**Ohio Rev. Code, Section 9.38**, states public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. Only the legislative authority may adopt this policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day. Also, **Board Policy DM** states "Monies collected by School District employees and by student treasurers shall be handled using prudent business procedures both to demonstrate the ability of the school system employees to operate in that fashion and to teach such procedures to our students. All moneys collected are receipted, accounted for and deposited every 24 hours if possible. In no case shall monies be left overnight in schools except in safes provided for safekeeping of valuables, and even then no more than a few dollars should be kept".

Twenty percent of athletic gate receipts tested were not deposited within the required time frame, ranging from five to thirteen days. Failure to deposit monies in accordance with the Ohio Revised Code and School District Policy could result in the misappropriation of School District funds.

We recommend that all School District monies be deposited in accordance with the aforementioned Ohio Revised Code and School District Policy.

**FINDING NUMBER 2004-004**

**Material Noncompliance**

**Ohio Rev. Code, Section 5705.10**, provides, in part, that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The following funds had negative fund balances throughout the year:

DATE	FUND	NEGATIVE FUND BALANCE
1/31/04	General Fund #001	(\$269,599)
5/31/04	General Fund #001	(\$ 17,624)
6/30/04	General Fund #001	(\$ 36,809)
10/31/2003	Food Service Fund #006	(\$ 23,908)
10/31/2003	Title VI-B Special Education Fund #516	(\$ 15,327)
10/31/2003	Reducing Class Size Fund #590	(\$ 3,835)
3/31/2004	Food Service Fund #006	(\$ 15,561)
3/31/2004	Student Intervention Fund #460	(\$ 711)
3/31/2004	Title VI-B Special Education Fund #516	(\$ 3,284)
3/31/2004	Drug Free School Fund #584	(\$ 765)
3/31/2004	Reducing Class Size Fund #590	(\$ 4,401)
6/30/2004	Food Service Fund #006	(\$ 19,137)

We recommend the School District monitor fund balances and take corrective action such as advancing funds, if possible. It is recognized this is difficult to do when the general fund also has a negative balance as reflected above.

**FINDING NUMBER 2004-005**

**Material Noncompliance**

**Ohio Rev. Code, Section 135.18(A)**, provides, in part, that the treasurer, prior to making the initial deposit in a public depository, shall require the institution designated as a public depository to pledge to and deposit with the treasurer, as security for the repayment of all public moneys to be deposited in the public depository during the period of designation pursuant to the award, eligible securities of aggregate market value equal to the excess amount of public moneys to be at the time so deposited, over and above such portion or amount of moneys as is at such time insured by the federal depository insurance corporation (FDIC) or by any other agency or instrumentality of the federal government.

At July 31, 2003, the sum of the School District's deposits at Eaton National Bank & Trust Company exceeded the FDIC insurance plus a letter of credit of \$2,500,000 pledged as public unit deposit collateralization by \$300,788.

Failure to adequately collateralize School District deposits could lead to a loss of School District funds in the event of a bank failure.

The School District should implement procedures to assure that its depository balances are adequately secured by eligible collateral at all times.

**FINDING NUMBER 2004-006**

**Reportable Condition**

When designing the public office's system of internal control and specific control activities management should consider the following:

- Ensuring that all transactions are properly authorized in accordance with management policies.
- Ensuring that accounting records are properly designed.
- Ensuring adequate security of assets and records.
- Planning for segregation of duties or compensating controls.
- Verifying the existence and valuation of assets and liabilities and periodically reconciling them to the accounting records.
- Performing analytical procedures to determine the reasonableness of financial data.
- Ensuring the collection and compilation of the data needed for the timely preparation of financial statements.

The School District does not have proper controls and procedures over payroll bank reconciliations. This is evidenced by the fact the payroll account that was not properly reconciled as of June 30, 2004. The School District has indicated that they are working to improve these controls. The School District's lunchroom register tapes did not always reconcile to the deposit slips and the amounts reported to the Ohio Department of Education on the CN-7 reports. The variances ranged from \$1 to \$1,982. The larger error was due to a cashier ringing the items wrong on the register. A comparison of daily receipts rung on this register confirmed this to be the case. Failure to properly monitor and reconcile the supporting data to the deposit slips and CN-7 reports could result in a misappropriation of monies and could hinder the timely detection of the misappropriation.

Reconciliations are an effective tool to help management determine that all transactions are properly recorded.

We recommend the School District properly reconcile the payroll account and the CN-7 reports on a monthly basis. Any variances should be immediately investigated, justified and adjusted for if necessary



**NATIONAL TRAIL LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2004**

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>
2003-001	School District did not prepare its audit report in accordance with generally accepted accounting principles contrary to Ohio Admin. Code Section 117-2-03(B)	No	Finding re-issued as 2004-001 as the School District reports on the Other Comprehensive Basis of Accounting (OCBOA) for current audit period.
2003-002	Payroll account not reconciled.	No	Finding re-issued as 2004-006 for current audit period.





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**NATIONAL TRAIL 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 1, 2006**