



Mary Taylor, CPA  
Auditor of State



**NATIONAL TRAIL LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

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# Mary Taylor, CPA

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## 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, 2006, 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 National Trail Local School District, Preble County, Ohio, as of June 30, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

February 15, 2007

**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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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, 2006, 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 fiscal year 2006 are as follows:

In total, net assets decreased \$87,664 which represents a 9.8 percent decrease from fiscal year 2005.

General receipts accounted for \$8,609,231 or 83.3 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 \$1,722,398 or 16.7 percent of total receipts of \$10,331,629.

The School District had \$10,419,293 in disbursements; only \$1,722,398 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts (primarily taxes and entitlements) were \$8,609,231, which were not adequate to provide for these programs.

Among major funds, the General Fund had \$8,502,087 in receipts and \$8,478,287 in disbursements. The General Fund's balance decreased \$12,145 over fiscal year 2005.

### **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, 2006  
Unaudited

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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 fiscal year 2006, 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 receipt sources such as property and income taxes.



**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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

*Fund Financial Statements*

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

*Governmental Funds*

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

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2006 compared to fiscal year 2005 on a modified cash basis:

Table 1  
Net Assets

	2006	2005	Change
<b>Assets</b>			
Current Assets	\$809,380	\$897,044	(\$87,664)
<b>Net Assets</b>			
Restricted	654,091	695,882	(41,791)
Unrestricted	155,289	201,162	(45,873)
<i>Total Net Assets</i>	\$809,380	\$897,044	(\$87,664)

Total net assets of governmental activities decreased by \$87,664, this was due to increased costs for health insurance and special education, coupled with expenditures for capital projects (i.e., mechanical pump room) and payments to employees for retirement benefits.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2006 and 2005.

**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

Table 2  
Changes in Net Assets

	2006	2005	Change
<b>Receipts</b>			
Program Receipts:			
Charges for Services	\$474,480	\$431,204	\$43,276
Operating Grants and Contributions	1,226,270	1,118,749	107,521
Capital Grants and Contributions	21,648	67,329	(45,681)
<i>Total Program Receipts</i>	<u>1,722,398</u>	<u>1,617,282</u>	<u>105,116</u>
General Receipts:			
Property Taxes	2,534,992	2,510,770	24,222
Income Tax	987,714	893,161	94,553
Grants and Entitlements not Restricted to			
Specific Programs	4,726,675	4,601,214	125,461
Investment Earnings	10,305	17,494	(7,189)
Gifts and Donations	3,952	222	3,730
Notes Issued	319,226	0	319,226
Miscellaneous	26,367	26,667	(300)
<i>Total General Receipts</i>	<u>8,609,231</u>	<u>8,049,528</u>	<u>559,703</u>
<i>Total Receipts</i>	<u>10,331,629</u>	<u>9,666,810</u>	<u>664,819</u>
<b>Program Disbursements</b>			
Instruction:			
Regular	4,259,599	4,247,568	12,031
Special	1,310,488	1,266,790	43,698
Vocational	246,157	233,270	12,887
Adult Continuing	11,758	18,504	(6,746)
Support Services:			
Pupils	498,575	529,174	(30,599)
Instructional Staff	337,489	294,404	43,085
Board of Education	41,427	57,376	(15,949)
Administration	761,230	730,527	30,703
Fiscal	189,378	190,654	(1,276)
Operation and Maintenance of Plant	811,268	805,389	5,879
Pupil Transportation	605,424	602,301	3,123
Central	83,503	82,413	1,090
Operation of Non-Instructional Services	351,418	364,141	(12,723)
Extracurricular Activities	211,909	103,716	108,193
Capital Outlay	158,823	161,862	(3,039)
Principal Retirement	156,807	144,166	12,641
Current Refunding	207,226	0	207,226
Interest and Fiscal Charges	176,814	184,497	(7,683)
<i>Total Disbursements</i>	<u>10,419,293</u>	<u>10,016,752</u>	<u>\$402,541</u>
<i>Decrease in Net Assets</i>	(87,664)	(349,942)	
<i>Net Assets at Beginning of Year</i>	897,044	1,246,986	
<i>Net Assets at End of Year</i>	<u>\$809,380</u>	<u>\$897,044</u>	

**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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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 24.5 percent of receipts for governmental activities for the National Trail Local School District for fiscal year 2006. Grants and entitlements not restricted to specific programs made up 45.7 percent of receipts for governmental activities of the School District for fiscal year 2006. Operating grants and contributions and grants and entitlements not restricted to specific programs increased due to and increase in ADM and a slight increase in State funding.

Instruction comprises 55.9 percent of School District disbursements. Support services disbursements make up 31.9 percent of the disbursements.

During fiscal year 2005 the School District did not offer many of the extracurricular activities due to funding limitations, but during fiscal year 2006 the School District offered more extracurricular activities, which resulted in the increase of disbursements for extracurricular activities.

The significant increase in operating grants and contributions and grants and entitlements not restricted to specific programs was due to an increase in ADM and a slight increase in State funding.

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 comparing fiscal years 2006 and 2005. That is, it identifies the cost of those services supported by tax revenue and unrestricted State entitlements.

**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

Table 3  
Governmental Activities

	Total Cost of Service 2006	Net Cost of Service 2006	Total Cost of 2005	Net Cost of Services 2005
<b>Instruction:</b>				
Regular	\$4,259,599	(\$4,074,863)	\$4,247,568	(\$4,034,480)
Special	1,310,488	(589,106)	1,266,790	(659,807)
Vocational	246,157	(198,784)	233,270	(187,566)
Adult Continuing	11,758	(11,758)	18,504	(18,504)
<b>Support Services:</b>				
Pupils	498,575	(381,630)	529,174	(394,459)
Instructional Staff	337,489	(277,202)	294,404	(262,611)
Board of Education	41,427	(41,427)	57,376	(57,376)
Administration	761,230	(732,793)	730,527	(701,785)
Fiscal	189,378	(189,378)	190,654	(190,654)
Operation and Maintenance of Plant	811,268	(805,628)	805,389	(797,984)
Pupil Transportation	605,424	(559,243)	602,301	(501,630)
Central	83,503	(77,833)	82,413	(73,413)
Operation of Non-Instructional Services	351,418	28,677	364,141	14,814
Extracurricular Activities	211,909	(86,257)	103,716	(43,490)
Capital Outlay	158,823	(158,823)	161,862	(161,862)
Principal Retirement	156,807	(156,807)	144,166	(144,166)
Current Refunding	207,226	(207,226)	0	0
Interest and Fiscal Charges	176,814	(176,814)	184,497	(184,497)
<i>Total Disbursements</i>	<u>\$10,419,293</u>	<u>(\$8,696,895)</u>	<u>\$10,016,752</u>	<u>(\$8,399,470)</u>

### **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 \$10,012,403 and disbursements of \$10,212,067. The General Fund had a decrease in fund balance of \$12,145. The Bond Retirement Debt Service Fund had a decrease in fund balance of \$17,880 due to bond and interest payments exceeding revenues received.

### **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.

**National Trail Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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During the course of fiscal year 2006 the School District revised its budget as it attempted to deal with unexpected changes in revenues and expenditures. A summary of the General Fund's 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 \$8,481,710 which was \$24,612 above the original estimates of \$8,457,098. Final Budget basis disbursements were \$8,860,029 which was \$184,374 above the original estimates of \$8,675,655.

The School District's ending unobligated General Fund cash balance was \$64,140.

### **Debt Administration**

At June 30, 2006, the School District had a Mechanical Pump Room Note, dated August 31, 2005, that will be retired during fiscal year 2013. The School Improvement General Obligation bonds were issued December 1, 1996 and will be retired on December 1, 2018 for the purpose of the construction of a new school building. Table 4 summarizes the debt outstanding:

Table 4  
Outstanding Debt, at Fiscal Year-end  
Governmental Activities

	2006	2005
Energy Conservation Note	\$0	\$254,033
Mechanical Pump Room Note	319,226	0
School Improvement General Obligation Bonds	2,765,000	2,875,000
	<u>\$3,084,226</u>	<u>\$3,129,033</u>

The School District's overall legal debt margin was \$7,595,997 with an unvoted debt margin of \$106,395 at June 30, 2006.

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

### **Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Steve Dearth, Treasurer, 6940 Oxford-Gettysburg Road, New Paris, Ohio 45347, or email at [ntbo\\_sd@swoca.net](mailto:ntbo_sd@swoca.net).

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**National Trail Local School District**  
Statement of Net Assets - Modified Cash Basis  
June 30, 2006

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$809,380</u>
<b>Net Assets</b>	
Restricted for:	
Debt Service	466,231
Capital Outlay	33,790
Food Service	29,050
Uniform School Supplies	32,595
Other Purposes	92,425
Unrestricted	<u>155,289</u>
<i>Total Net Assets</i>	<u><u>\$809,380</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, 2006

	Program Cash Receipts			Net (Disbursements)	
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Receipts and Changes in Net Assets	
			Capital Grants and Contributions	Governmental Activities	
<b>Governmental Activities</b>					
Instruction:					
Regular	\$4,259,599	\$103,202	\$68,734	\$12,800	(\$4,074,863)
Special	1,310,488	0	721,382	0	(589,106)
Vocational	246,157	0	47,373	0	(198,784)
Adult Continuing	11,758	0	0	0	(11,758)
Support Services:					
Pupils	498,575	0	116,945	0	(381,630)
Instructional Staff	337,489	0	60,287	0	(277,202)
Board of Education	41,427	0	0	0	(41,427)
Administration	761,230	0	28,437	0	(732,793)
Fiscal	189,378	0	0	0	(189,378)
Operation and Maintenance of Plant	811,268	250	5,390	0	(805,628)
Pupil Transportation	605,424	0	37,333	8,848	(559,243)
Central	83,503	0	5,670	0	(77,833)
Operation of Non-Instructional Services	351,418	245,376	134,719	0	28,677
Extracurricular Activities	211,909	125,652	0	0	(86,257)
Capital Outlay	158,823	0	0	0	(158,823)
Principal Retirement	156,807	0	0	0	(156,807)
Current Refunding	207,226	0	0	0	(207,226)
Interest and Fiscal Charges	176,814	0	0	0	(176,814)
<i>Total Governmental Activities</i>	<u>\$10,419,293</u>	<u>\$474,480</u>	<u>\$1,226,270</u>	<u>\$21,648</u>	<u>(8,696,895)</u>
<b>General Receipts</b>					
Property Taxes Levied for:					
General Purposes					2,255,785
Debt Service					234,338
Other Purposes					44,869
Income Tax					987,714
Grants and Entitlements not Restricted to Specific Programs					4,726,675
Investment Earnings					10,305
Gifts and Donations					3,952
Notes Issued					319,226
Miscellaneous					26,367
<i>Total General Receipts</i>					8,609,231
<i>Change in Net Assets</i>					(87,664)
<i>Net Assets at Beginning of Year</i>					897,044
<i>Net Assets at End of Year</i>					\$809,380

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, 2006

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$132,170	\$466,231	\$180,393	\$778,794
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	30,586	0	0	30,586
<i>Total Assets</i>	<u>\$162,756</u>	<u>\$466,231</u>	<u>\$180,393</u>	<u>\$809,380</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	\$98,616	\$0	\$19,560	\$118,176
Reserved for Bus Purchases	30,586	0	0	30,586
Unreserved, Undesignated, Reported in:				
General Fund	33,554	0	0	33,554
Special Revenue Funds	0	0	157,629	157,629
Debt Service Fund	0	466,231	0	466,231
Capital Projects Funds	0	0	3,204	3,204
<i>Total Fund Balances</i>	<u>\$162,756</u>	<u>\$466,231</u>	<u>\$180,393</u>	<u>\$809,380</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, 2006

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Property Taxes	\$2,255,785	\$234,338	\$44,869	\$2,534,992
Income Tax	987,714	0	0	987,714
Intergovernmental	5,170,311	28,437	775,845	5,974,593
Interest	10,209	0	96	10,305
Tuition and Fees	5,950	0	47,091	53,041
Rent	9,926	0	0	9,926
Extracurricular Activities	36,878	0	129,259	166,137
Gifts and Donations	2,101	0	1,851	3,952
Charges for Services	0	0	245,376	245,376
Miscellaneous	23,213	0	3,154	26,367
<i>Total Receipts</i>	<u>8,502,087</u>	<u>262,775</u>	<u>1,247,541</u>	<u>10,012,403</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	4,062,201	0	197,398	4,259,599
Special	910,259	0	400,229	1,310,488
Vocational	243,080	0	3,077	246,157
Adult Continuing	11,758	0	0	11,758
Support Services:				
Pupils	378,219	0	120,356	498,575
Instructional Staff	284,166	0	53,323	337,489
Board of Education	41,427	0	0	41,427
Administration	754,509	5,640	1,081	761,230
Fiscal	189,378	0	0	189,378
Operation and Maintenance of Plant	741,415	0	69,853	811,268
Pupil Transportation	604,803	0	621	605,424
Central	78,929	0	4,574	83,503
Operation of Non-Instructional Services	4,256	0	347,162	351,418
Extracurricular Activities	115,281	0	96,628	211,909
Capital Outlay	0	0	158,823	158,823
Debt Service:				
Principal Retirement	46,807	110,000	0	156,807
Interest and Fiscal Charges	11,799	165,015	0	176,814
<i>Total Disbursements</i>	<u>8,478,287</u>	<u>280,655</u>	<u>1,453,125</u>	<u>10,212,067</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>23,800</u>	<u>(17,880)</u>	<u>(205,584)</u>	<u>(199,664)</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	52,803	0	63,262	116,065
Transfer In	0	0	25,486	25,486
Advances Out	(63,262)	0	(52,803)	(116,065)
Transfer Out	(25,486)	0	0	(25,486)
Notes Issued	207,226	0	112,000	319,226
Current Refunding	(207,226)	0	0	(207,226)
<i>Total Other Financing Sources (Uses)</i>	<u>(35,945)</u>	<u>0</u>	<u>147,945</u>	<u>112,000</u>
<i>Net Change in Fund Balance</i>	(12,145)	(17,880)	(57,639)	(87,664)
<i>Fund Balances at Beginning of Year</i>	<u>174,901</u>	<u>484,111</u>	<u>238,032</u>	<u>897,044</u>
<i>Fund Balances at End of Year</i>	<u>\$162,756</u>	<u>\$466,231</u>	<u>\$180,393</u>	<u>\$809,380</u>

See Accompanying Notes to the Basic Financial Statements

**National Trial 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, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Receipts</b>				
Property Taxes	\$2,249,804	\$2,255,785	\$2,255,785	\$0
Income Tax	942,010	987,714	987,714	0
Intergovernmental	5,173,734	5,172,311	5,170,311	(2,000)
Interest	18,000	10,000	10,220	220
Tuition and Fees	9,775	5,925	5,950	25
Rent	10,000	9,926	9,926	0
Extracurricular Activities	50,000	36,774	36,878	104
Gifts and Donations	0	2,101	2,101	0
Miscellaneous	3,775	1,174	2,495	1,321
<i>Total Receipts</i>	<u>8,457,098</u>	<u>8,481,710</u>	<u>8,481,380</u>	<u>(330)</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	4,365,493	3,995,446	4,004,963	(9,517)
Special	864,899	919,283	910,353	8,930
Vocational	212,431	248,313	245,800	2,513
Adult Continuing	0	0	11,758	(11,758)
Other	0	67,143	59,816	7,327
Support Services:				
Pupils	362,110	401,886	378,669	23,217
Instructional Staff	258,635	298,106	288,878	9,228
Board of Education	39,360	42,222	41,427	795
Administration	568,155	749,885	754,970	(5,085)
Fiscal	314,238	202,219	220,123	(17,904)
Operation and Maintenance of Plant	762,460	779,986	774,605	5,381
Pupil Transportation	671,844	684,698	627,227	57,471
Central	74,664	88,289	80,096	8,193
Operation of Non-Instructional Services	120	824	4,256	(3,432)
Extracurricular Activities	115,746	115,897	115,281	616
Debt Service:				
Principal Retirement	51,500	254,033	254,033	0
Interest and Fiscal Charges	14,000	11,799	11,799	0
<i>Total Disbursements</i>	<u>8,675,655</u>	<u>8,860,029</u>	<u>8,784,054</u>	<u>75,975</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(218,557)</u>	<u>(378,319)</u>	<u>(302,674)</u>	<u>75,645</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	0	0	52,803	52,803
Advances Out	0	0	(63,262)	(63,262)
Transfers Out	(2,500)	(25,486)	(25,486)	0
Notes Issued	0	207,226	207,226	0
Refund of Prior Year Disbursements	11,000	20,447	20,718	271
Refund of Prior Year Receipts	0	(75)	(75)	0
<i>Total Other Financing Sources (Uses)</i>	<u>8,500</u>	<u>202,112</u>	<u>191,924</u>	<u>(10,188)</u>
<i>Net Change in Fund Balances</i>	<u>(210,057)</u>	<u>(176,207)</u>	<u>(110,750)</u>	<u>65,457</u>
<i>Fund Balance at Beginning of Year</i>	119,189	119,189	119,189	0
<i>Prior Year Encumbrances Appropriated</i>	<u>55,701</u>	<u>55,701</u>	<u>55,701</u>	<u>0</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>(\$35,167)</u>	<u>(\$1,317)</u>	<u>\$64,140</u>	<u>\$65,457</u>

See Accompanying Notes to the Basic Financial Statements

**National Trail Local School District**  
Statement of Fiduciary Assets and Liabilities - Modified Cash Basis  
Fiduciary Fund  
June 30, 2006

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$75,436</u></u>
<b>Liabilities</b>	
Current Liabilities	
Due to Students	<u><u>\$75,436</u></u>

See Accompanying Notes to the Basic Financial Statements

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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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 School Board of Education (the Board), which provides educational services. The Board controls the School District’s instructional support facilities staffed by 54 non-certified and 90 certified teaching personnel and administrative employees providing education to 1,151 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 (OSP), 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, 2006

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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 (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, 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.

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.

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

*Fund Financial Statements:*

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

**B. Fund Accounting**

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

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

*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.

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

**C. Basis of Accounting**

The School District's financial statements are prepared using the modified cash basis of accounting. 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 Note 2E.

As a result of the use of this modified cash basis of accounting, certain assets and their related receipts (such as accounts receivable and receipts for billed or provided services not yet collected) and certain liabilities and their related disbursements (such as accounts payable and disbursements for goods or services received but not yet paid, and accrued disbursements 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.

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



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

**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 2006, 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, 2006.

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 2006 was \$10,209, which included \$10,026 assigned from other School District funds.

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

**F. Interfund Receivables/Payables**

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

**G. Restricted Assets**

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

**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.

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

**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 \$642,795 of restricted net assets, of which none is restricted by enabling legislation.

**J. Fund Balance Reserves**

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 bus purchases.

**NOTE 3 - 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 5705.10, provides that money paid into a fund must be used only for the purpose for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover expenses of another fund. The following funds had significant negative fund balances during the fiscal year: General, Food Service, Ohio Reads, High Schools That Work, Title VI-B, Title I, and Improving Teacher Quality Funds.

The General Fund had an excess of appropriations over estimated resources plus available balances for the original and final budgets at June 30, 2006 of \$35,167 and \$1,317, respectively. The Reducing Class Size Fund also had an excess of appropriations over estimated resources plus available balances for the final budget at June 30, 2006 of \$11,245. The School District will monitor budgetary controls more closely to ensure appropriations do not exceed estimated resources and available balances in the future.

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – 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) and unrecorded cash which represents amounts received but not included on the budgetary basis. Unrecorded cash is included as revenue on the modified cash basis Statement of Cash Receipts, Disbursements and Changes in Fund Balances.

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

	<u>General</u>
Modified Cash Basis	(\$12,145)
Unrecorded Cash Fiscal Year 2005	11
Adjustment for Encumbrances	<u>(98,616)</u>
Budget Basis	<u><u>(\$110,750)</u></u>

**NOTE 5 - 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.

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio 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, \$1,057 of the School District's bank balance of \$101,057 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.

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

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

**B. Investments**

As of June 30, 2006, the School District only had investments in STAROhio.

	<u>Fair Value</u>	<u>Maturity</u>
STAROhio	<u>\$2,016</u>	<u>Average 33 Days</u>

*Interest Rate Risk* - The School District's investment policy follows State statute, which requires that an investment mature within five years of the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

*Credit Risk* - 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. The School District has no investment policy that addresses credit risk.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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.

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

Public utility property tax revenue received in calendar year 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property tax) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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 Counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$92,964,540	87.62%	\$100,076,540	89.39%
Public Utility Personal	8,505,900	8.02	8,321,570	7.43
General Business Personal	4,633,840	4.36	3,551,302	3.18
Total Assessed Value	<u>\$106,104,280</u>	<u>100.00%</u>	<u>\$111,949,412</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$35.18		\$35.18	

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**NOTE 7 - INCOME TAX**

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. An additional three-fourths percent was also passed and effective January 1, 2006 for an additional five years for general expenses. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

**NOTE 8 – INTERFUND ADVANCES**

At June 30, 2006, the General Fund had an unpaid interfund cash advance, in the amount of \$63,262, for a short-term loan made to Other Governmental Funds. This is expected to be received within one year.

The General Fund had transfers out to the Other Governmental Funds of \$25,486. Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds.

**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 2006, 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 2006, 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
Educational General Liability	
Bodily Injury and Property Damage	
Per Occurrence	1,000,000

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

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
Product 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 changes in coverage from fiscal year 2005.

**B. Workers' Compensation**

For fiscal year 2006, 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 participants 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 2006, 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, by calling (800) 878-5853 or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).

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 2006, 10.58 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, 2006, 2005, and 2004, were \$113,382, \$106,537, and \$99,503, respectively; the full amount has been contributed for all three fiscal years.

**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, 2006

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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 of 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, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, 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, 2006, 2005, and 2004, were \$538,779, \$545,685, and \$554,958, respectively; the full amount has been contributed for all three fiscal years. Contributions to the DC and Combined Plans for fiscal year 2006 were \$5,629 made by the School District and \$15,447 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 partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, 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 \$41,445 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District the amount contributed to healthcare benefits, including the surcharge, during the 2006 fiscal year equaled \$52,757.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

**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 2006 were as follows:

	Amount Outstanding 6/30/05	Additions	Deductions	Amount Outstanding 6/30/06	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Energy Conservation Note 2002 4.85%	\$254,033	\$0	\$254,033	\$0	\$0
Mechanical Pump Room Note 2006 3.85%	0	319,226	0	319,226	40,706
General Obligation School Improvement Bonds 1997 5.73%	2,875,000	0	110,000	2,765,000	125,000
Total Governmental Activities Long-Term Liabilities	<u>\$3,129,033</u>	<u>\$319,226</u>	<u>\$364,033</u>	<u>\$3,084,226</u>	<u>\$165,706</u>

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

*Notes Payable*

The Energy Conservation Note 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. On August 31, 2005 the School District refunded the Energy Conservation Note. The School District paid \$46,807 of the Energy Conservation Note and rolled the remaining \$207,226 balance plus an additional \$112,000 into a new Mechanical Pump Room Note. The total Mechanical Pump Room Note is \$319,226 with an interest rate of 3.85 percent. The new note was issued for a seven year period with final maturity during fiscal year 2013. The debt will be retired from the anticipated savings over the eight years and will be paid from the General Fund.

*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 \$7,595,997 with an unvoted debt margin of \$106,395 at June 30, 2006.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2006, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$165,706	\$171,544	\$337,250
2008	182,274	162,403	344,677
2009	193,901	151,496	345,397
2010	215,591	139,565	355,156
2011	227,347	126,610	353,957
2012-2016	1,204,407	422,741	1,627,148
2017-2019	895,000	78,260	973,260
Total	\$3,084,226	\$1,252,619	\$4,336,845

**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 \$18,912 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.

*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 2006, the School District paid \$1,918 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. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a State or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2006, the School District paid \$925 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**B. Insurance Purchasing Pools**

*Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan*

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

*Ohio School Plan*

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

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

**C. Shared Risk Pool**

*Preble County Consortium*

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

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



**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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

	<u>Textbooks and Instructional Materials</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of		
June 30, 2005	(\$364,740)	\$0
Current Year Set-aside Requirement	166,840	166,840
Qualifying Disbursements	(114,919)	(371,556)
Current Year Offsets	0	(44,869)
Totals	<u>(\$312,819)</u>	<u>(\$249,585)</u>
Set-aside Balance Carried Forward to		
Future Fiscal Years	<u>(\$312,819)</u>	<u>\$0</u>
Set-aside Reserve Balance as of		
June 30, 2006	<u>\$0</u>	<u>\$0</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced textbooks and instructional materials and capital improvements amounts below zero. The extra amount of offsets for textbooks and instructional materials may be used to reduce the set-aside requirements in future fiscal years, but the extra amount of offsets for capital improvements may not be used to reduce the set-aside requirements in future fiscal years.

**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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

**B. Litigation**

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

**National Trail Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

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**NOTE 17 – SIGNIFICANT CONTRACTUAL COMMITMENTS**

As of June 30, 2006, the School District had contractual purchase commitments as follows:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance 6/30/2006</u>
Mike Lawrence	<u>\$12,500</u>	<u>\$0</u>	<u>\$12,500</u>

**NATIONAL TRAIL LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	None	10.550		\$13,252		\$13,252
Nutrition Cluster:						
National School Breakfast Program	05-PU-05/06	10.553	\$26,211		\$26,211	
National School Lunch Program	LLP4-05/06	10.555	<u>102,709</u>		<u>102,709</u>	
Total Nutrition Cluster			<u>128,920</u>		<u>128,920</u>	
Total U.S. Department of Agriculture			<u>128,920</u>	<u>13,252</u>	<u>128,920</u>	<u>13,252</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	6B-SF-05	84.027	(15,030)		19,800	
	6B-SF-06		<u>293,236</u>		<u>269,358</u>	
			278,206		289,158	
Special Education - Preschool Grant	PG-S1-05	84.173	236		-	
	PG-S1-06		<u>1,069</u>		<u>973</u>	
			1,305		973	
Total Special Education Cluster			<u>279,511</u>		<u>290,131</u>	
Title I, Part A, CSEA	C1-S1-05	84.010	1,255		2,478	
	C1-S1-06		<u>169,542</u>		<u>166,955</u>	
			170,797		169,433	
Drug Free Schools Grant	DR-S1-06	84.186	5,918		5,918	
Innovative Education Program Strategies	C2-S1-06	84.298	3,091		3,091	
Technology Literacy Challenge Fund Grant	TJ-S1-05	84.318	(1,380)		1,380	
	TJ-S1-06		<u>5,639</u>		<u>4,049</u>	
Total Technology Literacy Challenge Fund Grant			4,259		5,429	
Improving Teacher Quality State Grant (Title II)	TR-S1-05	84.367	7,044		11,356	
	TR-S1-06		<u>72,635</u>		<u>78,688</u>	
Total Improving Teacher Quality State Grant (Title II)			79,679		90,044	
Hurricane Education Recovery	HR-01-06	84.938	<u>2,000</u>		<u>2,000</u>	
Total U.S. Department of Education			<u>545,255</u>	<u>13,252</u>	<u>566,046</u>	
<b>TOTAL FEDERAL ASSISTANCE</b>			<u><b>\$674,175</b></u>	<u><b>\$13,252</b></u>	<u><b>\$694,966</b></u>	<u><b>\$13,252</b></u>

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

**NATIONAL TRAIL LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DISTRIBUTION PROGRAM**

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

**NOTE C - CHILD NUTRITION CLUSTER**

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

**NOTE D - MATCHING REQUIREMENTS**

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

**NOTE E – NEGATIVE RECEIPTS**

Each project completed approved activities within the time frames allotted by the Ohio Department of Education (ODE). At the conclusion of the grant period, the School District requested that unexpended funds be transferred to the following grant period.

**NOTE F – TRANSFER OF TITLE VI-B RECEIPTS, CFDA # 84.027**

\$15,030 of FY05 Title VI-B Special Education Grants to the States was transferred to the FY06 Title VI-B Special Education Grants to the States at the end fiscal year 2005. It is shown as a receipt in FY06 and a negative receipt in FY05 on the Schedule of Federal Awards.

**NOTE G – TRANSFER OF TECHNOLOGY LITERACY CHALLENGE RECEIPTS, CFDA # 84.318**

\$1,380 of FY05 Technology Literacy Challenge Fund Grant was transferred to the FY06 Technology Literacy Challenge Fund Grant at the end of fiscal year 2005. It is shown as a receipt in FY06 and a negative receipt in FY05 on the Schedule of Federal Awards.

**NOTE H – TRANSFER OF IMPROVING TEACHER QUALITY RECEIPTS, CFDA # 84.367**

\$8,204 of FY05 Improving Teacher Quality Grant was transferred to the FY06 Improving Teacher Quality Grant at the end of fiscal year 2005. It is shown as a receipt in FY06 and included as a negative receipt in FY05 on the Schedule of Federal Awards.



# Mary Taylor, CPA

Auditor of State

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

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 National Trail Local School District, Preble County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 15, 2007, 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 2006-002 and 2006-004.

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 weaknesses. In a separate letter to the School District's management dated February 15, 2007 we reported other matters involving internal control over financial reporting which we did not deem as reportable conditions.

### Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed 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 2006-001 through 2006-003. In a separate letter to the School District's management dated February 15, 2007, 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, Board of Education, and federal awarding agencies. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

February 15, 2007



# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of National Trail Local School District, Preble County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, National Trail Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006. In a separate letter to the School District's management dated February 15, 2007, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

#### Internal Control Over Compliance

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

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

February 15, 2007



**NATIONAL TRAIL LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

**FINDING NUMBER 2006-001**

**Material Noncompliance**

**Ohio Administrative Code, § 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 2006-002**

**Material Noncompliance/Reportable Condition**

**Ohio Revised Code, § 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 following weaknesses in the design and operation of student activity receipts were noted during testing:

- The School District provided for audit only 3 activity budget forms; however, there were 32 student activities that required activity budget forms. The 3 forms were properly approved.
- Of 30 athletic ticket accountability forms tested, 3 were not signed by either the sponsor or athletic director.
- None of the 24 sales project potential forms were properly completed.

**FFA Fruit Sale:**

- The recalculated amount due by students did not agree to the student tally sheets for 12 students.
- The advisor did not keep track of unsold items. The advisor informed us that the fruit perished and that some nuts and BBQ were used for samples in class.
- Seven payments by students were not supported by duplicate receipts.
- One order form was calculated incorrectly.

**FINDING NUMBER 2006-002**  
**(Continued)**

**Athletics:**

- Miscellaneous sales (ie. programs) were included on the ticket accountability forms. Due to the inclusion of miscellaneous sales, it could not be determined if all athletic ticket revenues had been properly collected.

**8<sup>th</sup> Grade:**

- Duplicate receipts were not maintained for the \$170 in extra cookie dough tubs sold. The School District did not provide evidence of duplicate receipts for the Pizza Kit Sales and the Pie Sales.
- One order sheet was not properly calculated for a difference of \$19.
- Although some Sales Project Potential Forms were completed, none were properly approved by the sponsor, principal, or superintendent.

To improve internal controls over the School District's student activities we recommend the following:

- Prior to any financial transactions by an authorized student activity, a purpose clause should be submitted to and approved by the Board of Education. This will help insure compliance with **Board Policy IGDF(8)** limiting the number of fundraising activities so as not to become a burden or nuisance to the community.
- Sales project forms should be completed for all fundraisers, be it student activities or athletic clubs, indicating a proposed budget. The proposed sales project form should be signed by the activity advisor, building principal, Treasurer/designee, and Superintendent. Once the fundraiser is completed, the bottom of the form should be completed indicating actual results from the fundraiser and signed as by the same personnel. This will enhance the School District's compliance with **Board Policy IGDF(8)**.
- Pre-numbered duplicate receipts should be issued by all faculty and/or student advisors. Cash registers should be used when applicable. For each receipt recorded by the School District Treasurer's office the relevant advisor should be able to provide documentation for the entire receipt amount. This increases accountability over the receipting process.
- An inventory of unsold items should be maintained. Disposition of any unsold items should be noted on this inventory.
- Miscellaneous sales at athletic events should be kept separate from ticket sales to accurately account for ticket revenues. All athletic ticket accountability sheets should be reviewed and signed by either a sponsor or the athletic director.
- All order forms should be reviewed for accuracy.

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

**FINDING NUMBER 2006-003**

**Material Noncompliance**

**Ohio Revised Code, § 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:

<b>Dates</b>	<b>Fund</b>	<b>Date of Highest Negative Fund Balance</b>	<b>Highest Negative Fund Balance</b>
July 2005; various dates from December 2005 through April 2006	Fund 001 – General Fund	1/31/05	\$511,866
Various dates from July 2005 through February 2006	Fund 006 – Food Service	8/31/05	27,563
September 2005 through December 2005	Fund 459 – Ohio Reads	9/30/05	3,875
April 2005; May 2006 through June 2006	Fund 461 – High Schools That Work	6/19/05	2,372
July 2005 through January 2006; March 2006 through June 2006	Fund 516 – Title VI-B	9/30/05	65,838
Various dates throughout the entire year	Fund 572 – Title I	12/2/05	67,145
July 2005 through February 2006; May 2006 through June 2006	Fund 590 – Improving Teacher Quality	12/2/05	16,840

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

**FINDING NUMBER 2006-004**

**Reportable Condition**

When designing the public office’s system of internal control and the specific control activities, management should consider ensuring that all transactions are properly authorized in accordance with management’s policies, ensuring that accounting records are properly designed, and verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The School District lacks management oversight in the payroll operations of the District. This lack of oversight is illustrated by the following:

- 33 out of 60 (55%) employee paychecks selected did not have a corresponding sign-in sheet (the School District does not have a policy requiring employees to sign in). Of the remaining 27 employee paychecks selected, 2 employees did not have time sheets (7%). Of the 25 selected that had time sheets, 2 were not approved by a supervisor (8%).

**FINDING NUMBER 2006-004  
(Continued)**

- 7 of 60 (12%) employees tested did not have a salary notice on file (the employees were correctly paid).
- 2 of 60 (3%) employees tested had an inaccurate salary notice on file (the employees were correctly paid).
- 5 of 10 (50%) employees tested did not have a W-4 form on file (deductions were properly withheld).
- 6 of 10 (60%) employees tested did not have an IT-4 form on file (deductions were properly withheld).
- 9 of 10 (90%) employees tested did not have retirement authorizations on file (retirement authorizations are completed on-line; the District does not retain documentation)[deductions were properly withheld].
- 6 of 10 (60%) employees tested did not have SDIT authorization on file (deductions were properly withheld).
- The payroll account was not reconciled at June 30, 2006.

The lack of proper management oversight could result in material misstatement, overpayment, or unauthorized payment relating to payroll expenditures. To improve recordkeeping and accountability of payroll expenditures:

We recommend that the School District establish a policy requiring employees to complete sign-in or time sheets. All time sheets should be properly approved by a supervisor. We recommend that the School District maintain accurate salary notices for all employees. The School District should also maintain deduction authorizations for all employees.

We recommend that the School District reconcile the payroll account on a monthly basis. The reconciled payroll account balance (bank balance less outstanding checks plus deposits in transit) should equal the total book balance. Any variances should be immediately investigated and justified.

**Officials' Response:**

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

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

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**NATIONAL TRAIL LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2006**

Finding Number*	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2005-001 2004-001	Ohio Admin. Code Section 117-2-03(B), failure to report in accordance with generally accepted accounting principles	No	Not corrected - Re-issued as Finding 2006-001
2005-002 2004-002	Ohio Rev. Code Section 149.351, failure to maintain proper supporting documentation for student activities	No	Not corrected – Re-issued as Finding 2006-002
2005-003 2004-004	Ohio Rev. Code Section 5705.10, failure to maintain positive fund balances	No	Not corrected – Re-issued as Finding 2006-003
2005-004 2004-006	Failure to properly reconcile the payroll account	No	Not corrected – Re-issued as Finding 2006-004
2004-003	Ohio Rev. Code Section 9.38, failure to deposit monies on the following business day	Yes	
2004-005	Ohio Rev. Code Section 135.18(A), failure to adequately collateralize depository balances	Yes	

\*Note: The audits of the 2005 and 2004 financial statements were completed concurrently.







**Mary Taylor, CPA**  
Auditor of State

**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  
MARCH 13, 2007**