



Dave Yost • Auditor of State



**TRI-COUNTY NORTH LOCAL SCHOOL DISTRICT  
PREBLE COUNTY  
JUNE 30, 2016**

**TABLE OF CONTENTS**

TITLE	PAGE
Independent Auditor's Report .....	1
Prepared by Management:	
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position .....	11
Statement of Activities .....	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Budget Basis - General Fund.....	17
Statement of Fiduciary Net Position Fiduciary Funds.....	18
Statement of Changes in Fiduciary Net Position Private Purpose Trust Fund .....	19
Notes to the Basic Financial Statements .....	21
Required Supplementary Information:	
Schedule of the School District's Proportionate Share of the Net Pension Liability – School Employees Retirement System of Ohio .....	55
Schedule of the School District's Proportionate Share of the Net Pension Liability – State Teachers Retirement System of Ohio .....	56
Schedule of School District Contributions – School Employees Retirement System of Ohio .....	58
Schedule of School District Contributions – State Teachers Retirement System of Ohio .....	60
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	63

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Tri-County North Local School District, Preble County, Ohio (the School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Tri-County North Local School District, Preble County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2017, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 6, 2017

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

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The discussion and analysis of Tri-County North Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. Readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2016 are as follows:

- Foundation revenue increased due to changes in the funding calculation by the State that increased funding for the School District including special education monies.
- The School District continues to reduce expenditures for fiscal year 2016 by filling positions with less experienced teachers.
- The School District received \$597,793 in new operating revenues from the one percent earned income tax. The full amount will be received in fiscal year 2017.

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

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

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

### **Reporting the School District as a Whole**

#### *Statement of Net Position and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The statement of net position and the statement of activities answer this question. These statements include all assets, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

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

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

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

#### *Fund Financial Statements*

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

#### *Governmental Funds*

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

#### *Fiduciary Funds*

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

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

**The School District as a Whole**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for fiscal year 2016 compared to fiscal year 2015:

Table 1  
Net Position  
Governmental Activities

	2016	2015	Change
<b>Assets:</b>			
Current and Other Assets	\$9,413,476	\$7,162,650	\$2,250,826
Capital Assets, Net	8,648,577	8,686,561	(37,984)
<i>Total Assets</i>	<u>18,062,053</u>	<u>15,849,211</u>	<u>2,212,842</u>
<b>Deferred Outflows of Resources:</b>			
Pension	1,169,532	758,302	411,230
<b>Liabilities:</b>			
Other Liabilities	942,770	941,519	1,251
Long-Term Liabilities:			
Net Pension Liability	11,812,554	11,125,702	686,852
Other Liabilities	358,657	369,210	(10,553)
<i>Total Liabilities</i>	<u>\$13,113,981</u>	<u>\$12,436,431</u>	<u>\$677,550</u>
<b>Deferred Inflows of Resources:</b>			
Property Taxes	\$4,228,135	\$4,040,924	187,211
Pension	1,443,765	2,014,014	(570,249)
<i>Total Deferred Inflow of Resources</i>	<u>5,671,900</u>	<u>6,054,938</u>	<u>(383,038)</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	8,648,577	8,686,561	(37,984)
Restricted	534,091	669,050	(134,959)
Unrestricted	(8,736,964)	(11,239,467)	2,502,503
<i>Total Net Position</i>	<u>\$445,704</u>	<u>(\$1,883,856)</u>	<u>\$2,329,560</u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2016 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

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Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Total assets of governmental activities increased \$2,212,842. Current and other assets increased \$2,250,826 due to an increase in cash and cash equivalents, property and income taxes receivable. Cash and cash equivalents increased due to revenues exceeding expenditures. Property taxes receivable increased \$218,833 due to an increase in effective millage rate. Income taxes increased as the School District collected taxes for the entire fiscal year.

Table 2 shows the changes in net position for fiscal years 2016 and 2015.

Table 2  
Change in Net Position

	2016	2015	Change
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$669,626	\$692,250	(\$22,624)
Operating Grants, Interest and Contributions	781,107	837,460	(56,353)
<i>Total Program Revenues</i>	<u>1,450,733</u>	<u>1,529,710</u>	<u>(78,977)</u>
General Revenues:			
Property Taxes	4,108,064	4,024,012	84,052
Income Taxes	929,441	149,390	780,051
Payment in Lieu of Taxes	32,210	13,079	19,131
Grants and Entitlements not Restricted to Specific Programs	5,057,236	4,650,055	407,181
Gifts and Donations			
Interest	8,007	1,230	6,777
Miscellaneous	64,797	84,637	(19,840)
<i>Total General Revenues</i>	<u>10,199,755</u>	<u>8,922,403</u>	<u>1,277,352</u>
<i>Total Revenues</i>	<u>\$11,650,488</u>	<u>\$10,452,113</u>	<u>\$1,198,375</u>

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

	2016	2015	Change
<b>Program Expenses:</b>			
Instruction:			
Regular	\$4,381,218	\$4,730,996	(349,778)
Special	1,108,504	1,002,557	105,947
Vocational	42,091	58,836	(16,745)
Support Services:			
Pupils	612,384	585,703	26,681
Instructional Staff	390,197	345,853	44,344
Board of Education	18,506	18,768	(262)
Administration	708,307	793,071	(84,764)
Fiscal	178,327	200,988	(22,661)
Operation and Maintenance of Plant	643,215	776,164	(132,949)
Pupil Transportation	489,372	508,794	(19,422)
Central	35,487	33,124	2,363
Operation of Non-Instructional Services	316,421	362,216	(45,795)
Extracurricular Activities	396,899	430,585	(33,686)
<i>Total Expenses</i>	<u>9,320,928</u>	<u>9,847,655</u>	<u>(526,727)</u>
<i>Change in Net Position</i>	2,329,560	604,458	1,725,102
<i>Net Position at Beginning of Year</i>	<u>(1,883,856)</u>	<u>(2,488,314)</u>	<u>604,458</u>
<i>Net Position at End of Year</i>	<u>\$445,704</u>	<u>(\$1,883,856)</u>	<u>\$2,329,560</u>

**Governmental Activities**

Total revenues increased \$1,198,375 or 11.5 percent from fiscal year 2015, mainly the result of an increase in income tax revenue and grants and entitlements. Income tax increased due to the first full year of collections. Property taxes made up 35.3 percent of revenues for governmental activities for the School District for fiscal year 2016.

In total, expenses decreased \$526,727, due to the School District hiring entry level teachers. The staff agreed to switch to the PPO Core option medical plan instead of the PPO High option medical plan which continues to be a savings to the School District.

**The School District's Funds**

The major fund for the School District is the General Fund. The General Fund is the chief operating fund for the School District and accounts for 88 percent of all expenditures made during fiscal year 2016.

The net change in fund balance for the General Fund was an increase of \$2,222,283. The increase in fund balance is due to an increase in income tax and intergovernmental revenues. Income taxes increased due to the first full year of collections and intergovernmental revenue increased due to a change in the funding calculation by the State that increased funding for the School District.

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

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**General Fund Budgeting Highlights**

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

For the General Fund, the actual and final budgeted revenues were \$10,254,207, a \$601,814 increase from the original budgeted revenues estimate. The increase was due to an under estimate of resources during the beginning of the fiscal year, mainly in property taxes, income tax and state aid.

During the course of fiscal year 2016, final appropriations decreased \$1,091,597 from original appropriations to \$8,632,447, mainly due to the School District consolidating positions and filling open positions with entry level teachers. The School District continues to control their spending.

**Capital Assets**

Table 3 shows fiscal year 2016, balances compared to fiscal year 2015.

Table 3  
Capital Assets (Net of Depreciation) at June 30,

	2016	2015
Land	\$508,042	\$508,042
Construction in Progress	\$74,344	\$0
Land Improvements	255,601	262,401
Buildings and Improvements	6,968,048	7,187,201
Furniture, Fixtures, and Equipment	690,841	644,544
Vehicles	151,701	84,373
<i>Totals</i>	\$8,648,577	\$8,686,561

Overall capital assets decreased \$37,984 from fiscal year 2015 to fiscal year 2016 because of current year depreciation exceeding current year additions. For more information on capital assets, refer to Note 9 of the basic financial statements.

**Debt Administration**

As of June 30, 2016, the School District has no debt outstanding.

For more information see Note 14 of the Basic Financial Statements.

**Tri-County North Local School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited

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

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

**Tri-County North Local School District**  
Statement of Net Position  
June 30, 2016

	Governmental Activities
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$4,062,652
Accounts Receivable	23,240
Accrued Interest Receivable	3,873
Intergovernmental Receivable	17,007
Inventory of Supplies and Materials	32,619
Inventory Held for Resale	4,869
Property Taxes Receivable	4,826,610
Income Taxes Receivable	442,606
Nondepreciable Capital Assets	582,386
Depreciable Capital Assets, Net	8,066,191
<i>Total Assets</i>	<i>18,062,053</i>
<b>Deferred Outflow of Resources:</b>	
Pension	1,169,532
<b>Liabilities:</b>	
Accounts Payable	4,088
Accrued Wages and Benefits Payable	689,173
Contracts Payable	68,396
Matured Compensated Absences Payable	658
Retainage Payable	5,948
Accrued Vacation Leave Payable	30,575
Intergovernmental Payable	143,932
Long-Term Liabilities:	
Due Within One Year	4,996
Due In More Than One Year:	
Net Pension Liability	11,812,554
Other Liabilities	353,661
<i>Total Liabilities</i>	<i>13,113,981</i>
<b>Deferred Inflows of Resources:</b>	
Property Taxes	4,228,135
Pension	1,443,765
<i>Total Deferred Inflows of Resources</i>	<i>5,671,900</i>
<b>Net Position:</b>	
Net Investment in Capital Assets	8,648,577
Restricted for:	
Capital Projects	203,132
Good Samaritan	40,677
Lunchroom	9,648
Latchkey	3,167
State & Federal Grants	15,047
Student Activities	86,325
Set-Asides	176,095
Unrestricted	(8,736,964)
<i>Total Net Position</i>	<i>\$445,704</i>

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
Statement of Activities  
For the Fiscal Year Ended June 30, 2016

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants, Interest and and Contributions	
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$4,381,218	\$84,640	\$97,155	(\$4,199,423)
Special	1,108,504	3,362	304,387	(800,755)
Vocational	42,091	299,720	6,939	264,568
Support Services:				
Pupils	612,384	0	171,419	(440,965)
Instructional Staff	390,197	0	2,523	(387,674)
Board of Education	18,506	0	0	(18,506)
Administration	708,307	0	0	(708,307)
Fiscal	178,327	0	0	(178,327)
Operation and Maintenance of Plant	643,215	0	0	(643,215)
Pupil Transportation	489,372	0	0	(489,372)
Central	35,487	0	5,400	(30,087)
Operation of Non-Instructional Services	316,421	121,670	189,859	(4,892)
Extracurricular Activities	396,899	160,234	3,425	(233,240)
<i>Totals</i>	<u>\$9,320,928</u>	<u>\$669,626</u>	<u>\$781,107</u>	<u>(7,870,195)</u>
<b>General Revenues:</b>				
Property Taxes Levied for:				
General Purposes				4,001,807
Capital Outlay				106,257
Income Taxes				929,441
Payments in Lieu of Taxes				32,210
Grants and Entitlements not Restricted to Specific Programs				5,057,236
Interest				8,007
Miscellaneous				64,797
<i>Total General Revenues</i>				<u>10,199,755</u>
<i>Change in Net Position</i>				2,329,560
<i>Net Position (Deficit) at Beginning of Year</i>				<u>(1,883,856)</u>
<i>Net Position at End of Year</i>				<u>\$445,704</u>

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
 Balance Sheet  
 Governmental Funds  
 June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$3,526,075	\$360,482	\$3,886,557
Receivables:			
Property Taxes	4,701,089	125,521	4,826,610
Income Taxes	442,606	0	442,606
Accounts	21,811	1,429	23,240
Intergovernmental	0	17,007	17,007
Accrued Interest	3,873	0	3,873
Inventory of Supplies and Materials	32,619	0	32,619
Inventory Held for Resale	0	4,869	4,869
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	176,095	0	176,095
<i>Total Assets</i>	<u>\$8,904,168</u>	<u>\$509,308</u>	<u>\$9,413,476</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts Payable	\$3,985	\$103	\$4,088
Contracts Payable	0	68,396	68,396
Accrued Wages and Benefits Payable	683,810	5,363	689,173
Intergovernmental Payable	138,119	5,813	143,932
Matured Compensated Absences Payable	658	0	658
Retainage Payable	0	5,948	5,948
<i>Total Liabilities</i>	<u>826,572</u>	<u>85,623</u>	<u>912,195</u>
<b>Deferred Inflows of Resources:</b>			
Property Taxes	4,121,769	106,366	4,228,135
Unavailable Revenue	227,637	25,593	253,230
<i>Total Deferred Inflows of Resources</i>	<u>4,349,406</u>	<u>131,959</u>	<u>4,481,365</u>
<b>Fund Balances:</b>			
Nonspendable	52,259	0	52,259
Restricted	216,772	293,687	510,459
Assigned	189,068	0	189,068
Unassigned (Deficit)	3,270,091	(1,961)	3,268,130
<i>Total Fund Balances</i>	<u>3,728,190</u>	<u>291,726</u>	<u>4,019,916</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$8,904,168</u>	<u>\$509,308</u>	<u>\$9,413,476</u>

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2016

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<b>Total Governmental Fund Balances</b>	\$4,019,916
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*Amounts reported for governmental activities in the statement of net position are different because:*

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

Land	508,042	
Construction in Progress	74,344	
Land Improvements	853,154	
Buildings and Improvements	14,171,264	
Furniture, Fixtures, and Equipment	4,052,723	
Vehicles	796,114	
Accumulated Depreciation	(11,807,064)	
<b>Total Capital Assets</b>	<b>8,648,577</b>	<b>8,648,577</b>

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

Property Taxes	211,117	
Interest	2,061	
Intergovernmental	17,007	
Tuition and Fees	21,616	
Customer Sales and Services	1,429	
	<b>253,230</b>	<b>253,230</b>

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds

Deferred Outflows - Pension	1,169,532	
Deferred Inflows - Pension	(1,443,765)	
<b>Net Pension Liability</b>	<b>(11,812,554)</b>	<b>(12,086,787)</b>

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Accrued Vacation Leave Payable	(30,575)	
Compensated Absences	(358,657)	
<b>Total Liabilities</b>	<b>(389,232)</b>	<b>(389,232)</b>

<i>Net Position of Governmental Activities</i>	<b>\$445,704</b>
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See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Property Taxes	\$3,981,028	\$105,968	\$4,086,996
Income Taxes	929,441	0	929,441
Intergovernmental	5,221,536	611,781	5,833,317
Interest	5,946	0	5,946
Tuition and Fees	375,644	0	375,644
Rent	11,100	0	11,100
Extracurricular Activities	32,171	128,063	160,234
Gifts and Donations	100	4,442	4,542
Charges for Services	0	121,988	121,988
Payments in Lieu of Taxes	32,210	0	32,210
Miscellaneous	56,648	8,149	64,797
<i>Total Revenues</i>	<u>10,645,824</u>	<u>980,391</u>	<u>11,626,215</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	4,169,981	154,707	4,324,688
Special	1,011,629	121,355	1,132,984
Vocational	46,252	0	46,252
Support Services:			
Pupils	442,760	183,744	626,504
Instructional Staff	379,895	36,439	416,334
Board of Education	18,398	0	18,398
Administration	707,200	0	707,200
Fiscal	179,260	2,757	182,017
Operation and Maintenance of Plant	671,639	60,305	731,944
Pupil Transportation	466,943	86,452	553,395
Central	30,087	5,400	35,487
Operation of Non-Instructional Services	0	316,823	316,823
Extracurricular Activities	285,918	119,474	405,392
Capital Outlay	563	89,359	89,922
<i>Total Expenditures</i>	<u>8,410,525</u>	<u>1,176,815</u>	<u>9,587,340</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,235,299</u>	<u>(196,424)</u>	<u>2,038,875</u>
<b>Other Financing Sources (Uses):</b>			
Transfer In	0	13,016	13,016
Transfer Out	(13,016)	0	(13,016)
<i>Total Other Financing Sources (Uses)</i>	<u>(13,016)</u>	<u>13,016</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	2,222,283	(183,408)	2,038,875
<i>Fund Balances at Beginning of Year</i>	<u>1,505,907</u>	<u>475,134</u>	<u>1,981,041</u>
<i>Fund Balances at End of Year</i>	<u>\$3,728,190</u>	<u>\$291,726</u>	<u>\$4,019,916</u>

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
 Reconciliation of the Statement of Revenues, Expenditures and Changes  
 in Fund Balances of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2016

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**Net Change in Fund Balances - Total Governmental Funds** \$2,038,875

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

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

Capital Outlay	402,399	
Depreciation Expense	(440,383)	
		(37,984)

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

Property Taxes	21,068	
Interest	2,061	
Intergovernmental	484	
Tuition and Fees	978	
Charges for Services	(318)	
		24,273

Contractually required contributions are reported as expenditures in governmental funds however, the statement of activities reports these amounts as deferred outflows 692,421

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities (397,794)

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

These activities consist of:

Increase in Accrued Vacation Leave Payable	(784)	
Decrease in Compensated Absences	10,553	
		9,769

*Change in Net Position of Governmental Activities* \$2,329,560

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
Statement of Revenues, Expenditures and  
Changes in Fund Balance - Budget and Actual - Budget Basis  
General Fund  
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property Taxes	\$3,851,450	\$3,952,738	\$3,952,738	\$0
Income Tax	450,587	597,793	597,793	0
Intergovernmental	4,861,870	5,217,616	5,217,616	0
Interest	1,179	4,088	4,088	0
Tuition and Fees	349,605	375,536	375,536	0
Rent	9,450	11,100	11,100	0
Extracurricular Activities	31,750	32,035	32,035	0
Gifts and Donations	10,000	100	100	0
Payments in Lieu of Taxes	26,200	32,210	32,210	0
Miscellaneous	60,302	30,991	30,991	0
<i>Total Revenues</i>	9,652,393	10,254,207	10,254,207	0
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	4,814,648	4,197,396	4,197,396	0
Special	1,085,557	1,032,852	1,032,852	0
Vocational	69,711	53,879	53,879	0
Support Services:				
Pupils	478,124	442,247	442,247	0
Instructional Staff	429,010	380,471	380,471	0
Board of Education	22,806	19,345	19,345	0
Administration	836,746	737,692	737,692	0
Fiscal	218,947	198,445	198,445	0
Operation and Maintenance of Plant	785,612	711,054	711,054	0
Pupil Transportation	648,841	502,268	502,268	0
Central	38,476	34,207	34,207	0
Extracurricular Activities	295,406	295,006	295,006	0
Capital Outlay	160	27,585	27,585	0
<i>Total Expenditures</i>	9,724,044	8,632,447	8,632,447	0
<i>Excess of Revenues Over (Under) Expenditures</i>	(71,651)	1,621,760	1,621,760	0
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Expenditure	64,759	22,671	22,674	3
Advances In	0	0	71,679	71,679
Advances Out	0	(52,000)	(52,000)	0
Transfers Out	0	(13,016)	(13,016)	0
<i>Total Other Financing Sources (Uses)</i>	64,759	(42,345)	29,337	71,682
<i>Net Change in Fund Balance</i>	(6,892)	1,579,415	1,651,097	71,682
<i>Fund Balance at Beginning of Year</i>	1,758,449	1,758,449	1,758,449	0
<i>Prior Year Encumbrances Appropriated</i>	112,404	112,404	112,404	0
<i>Fund Balance at End of Year</i>	\$1,863,961	\$3,450,268	\$3,521,950	\$71,682

See Accompanying Notes to the Basic Financial Statement:

**Tri-County North Local School District**  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2016

	Private Purpose Trust Funds	Agency Funds
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$84,123	\$50,692
<b>Liabilities:</b>		
Current Liabilities:		
Due to Students	0	\$50,692
<b>Net Position:</b>		
Held in Trust for Scholarships	\$84,123	

See Accompanying Notes to the Basic Financial Statements

**Tri-County North Local School District**  
Statement of Changes in Fiduciary Net Position  
Private Purpose Trust Fund  
For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust Funds
<b>Additions:</b>	
Contributions and Donations	\$44,169
<b>Deductions:</b>	
Payments in Accordance with Trust Agreements	3,000
<i>Changes in Net Position</i>	41,169
<i>Net Position at Beginning of Year</i>	42,954
<i>Net Position at End of Year</i>	\$84,123

See Accompanying Notes to the Basic Financial Statements

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**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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

Tri-County North Local School District (the “School District”) was created from the northern half of the Twin Valley School District in 1983. The School District is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District currently operates one instructional building, a district office, and a bus garage. The School District is staffed by 40 classified employees and 67 certified full-time personnel who provide services to 1,019 students and other community members.

*Reporting Entity:*

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

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

The School District participates in three jointly governed organizations, two insurance purchasing pools, and one shared risk pool. These organizations are discussed in Note 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Southwest Ohio Computer Association
- Southwestern Ohio Educational Purchasing Council
- Southwestern Ohio Instructional Technology Association

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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Insurance Purchasing Pools:

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

Shared Risk Pool:

Preble County Schools Regional Council of Governments

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

The financial statements of Tri-County North Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Basis of Presentation**

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

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

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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*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.

**Fund Accounting**

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

*Governmental Funds:*

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

*General Fund* - The General Fund is the operating fund of the School District and is used to account for and report 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.

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

*Fiduciary Funds:*

Fiduciary fund reporting focuses on net position and changes in net position. 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 not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's fiduciary funds are a private purpose trust fund and an agency fund. The Private Purpose Trust Fund accounts for college scholarship programs for students. The School District's Agency Fund accounts for those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**Measurement Focus**

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

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

The private purpose trust fund is reported using a flow of economic resources measurement focus.

**Basis of Accounting**

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

*Revenues - Exchange and Non-exchange Transactions:*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means that the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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

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

*Deferred Outflows / Inflows of Resources*

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes, charges for service, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 11).

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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*Expenses/Expenditures:*

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

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

**Cash and Cash Equivalents**

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

During fiscal year 2016, the School District invested in negotiable certificates of deposit. Investments are reported at fair value, which is based on quoted market prices.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2016 amounted to \$5,946, which includes \$844 assigned from other School District funds.

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

**Inventory**

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

**Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by back-trending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their acquisition values as of the date received. The capitalization threshold is five hundred dollars.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	25 years
Buildings and Improvements	10-50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	5-10 years

**Restricted Assets**

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

**Compensated Absences**

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

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

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

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

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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

**Accrued Liabilities and Long-term Obligations**

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

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

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

*Restricted* – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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*Committed* – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level of formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education or a School District official delegated that authority by resolution or by State Statute. State statute authorizes the Treasurer to assign fund balance purchase orders provided such amounts have been lawfully appropriated.

*Unassigned* – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**Net Position**

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations, music and athletic programs, student activities, and federal and State grants.

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

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**Internal Activity**

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

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

**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 amounts that the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control has been established by the Board at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer has been given the authority to allocate the Board's appropriations to the function and object level.

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

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

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**Estimates**

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

**NOTE 3 – ACCOUNTABILITY**

At June 30, 2016, the Title I Fund had a deficit fund balance of \$1,961. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

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

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the fund liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a restricted, committed, or assigned fund balance (GAAP).
4. Unrecorded cash represents amounts received and spent but not included on the budget basis operating statement.
5. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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Net Change in Fund Balance

	<u>General Fund</u>
GAAP Basis	\$2,222,283
Net Adjustments for Revenue Accruals	(348,201)
Net Adjustments for Expenditure Accruals	(63,976)
Unrecorded Cash Fiscal Year Ended 2016	(22,294)
Unrecorded Cash Fiscal Year Ended 2015	1,532
Advances	19,679
Adjustment for Encumbrances	(157,926)
Budget Basis	<u>\$1,651,097</u>

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided in the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked daily, and the term of the agreement must not exceed thirty days.

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.

**Investments**

Investments are reported at fair value. As of June 30, 2016, the School District had the following investments:

Measurement/Investment	Measurement Amount	Maturity (in years)		Standard & Poor's Rating
		Less than 1	1-3	
Negotiable Certificates of Deposit	\$1,501,083	\$1,250,585	\$250,498	N/A

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District's recurring fair value measurements as of June 30, 2016. All of the School District's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. First half tax 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 and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Preble, Montgomery, and Darke Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes that are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows - property taxes.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

The amount available as an advance at June 30, 2016, was \$387,358 and is recognized as revenue: \$375,360 in the General Fund and \$11,998 in the Permanent Improvement Fund. The amount available as an advance at June 30, 2015, was \$346,601 in the General Fund and \$12,203 in the Permanent Improvement Fund.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources - unavailable revenue.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second- Half Collections		2016 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$130,519,370	95.15%	\$127,307,130	94.91%
Public Utility Personal	6,649,990	4.85%	6,821,532	5.09%
Total Assessed Value	\$137,169,360	100.00%	\$134,128,662	100.00%
Tax rate per \$1,000 of assessed valuation	\$41.80		\$43.45	

**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. The tax was effective on January 1, 2015 and is in effect for a five year period. 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. Income tax receipts are recorded in the General Fund.

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2016, consisted of property taxes, income tax, accounts (tuition and student fees), intergovernmental and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables, except delinquent property taxes, are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities:</u>	<u>Amounts</u>
Title I	<u><u>\$17,007</u></u>

**NOTE 9 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2016, was as follows:

	Balance 6/30/15	Additions	Deductions	Balance 6/30/16
<b><u>Governmental Activities:</u></b>				
Capital Assets, not Being Depreciated:				
Land	\$508,042	\$0	\$0	\$508,042
Construction in Progress	0	74,344	0	74,344
Total Capital Assets, not Being Depreciated	508,042	74,344	0	582,386
Capital Assets, Being Depreciated:				
Land Improvements	845,914	7,240	0	853,154
Buildings and Improvements	14,091,794	79,470	0	14,171,264
Furniture, Fixtures, and Equipment	3,899,530	153,193	0	4,052,723
Vehicles	707,962	88,152	0	796,114
Total Capital Assets, Being Depreciated	19,545,200	328,055	0	19,873,255
Less Accumulated Depreciation:				
Land Improvements	(583,513)	(14,040)	0	(597,553)
Buildings and Improvements	(6,904,593)	(298,623)	0	(7,203,216)
Furniture, Fixtures, and Equipment	(3,254,986)	(106,896)	0	(3,361,882)
Vehicles	(623,589)	(20,824)	0	(644,413)
Total Accumulated Depreciation	(11,366,681)	(440,383) *	0	(11,807,064)
Capital Assets, Being Depreciated, Net	8,178,519	(112,328)	0	8,066,191
Governmental Activities Capital Assets, Net	\$8,686,561	(\$37,984)	\$0	\$8,648,577

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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

Instruction:	
Regular	\$311,955
Special	1,680
Vocational	615
Support Services:	
Pupils	121
Instructional Staff	4,244
Board Of Education	108
Administration	21,228
Fiscal	542
Operation and Maintenance of Plant	54,228
Pupil Transportation	35,749
Operation of Non-Instructional Services	5,041
Extracurricular Activities	4,872
Total Depreciation Expense	<u><u>\$440,383</u></u>

**NOTE 10 - RISK MANAGEMENT**

**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 2016, the School District contracted with Hylant Group for property, liability, fleet insurance, and inland marine coverage.

The School District, along with other school districts in Ohio, participates 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 an annual premium to the OSP (See Note 16). The School District contracts for crime insurance, education general liability, employee benefits liability, employer's liability and stop gap, errors and omissions liability, and employment practices with the OSP.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from last fiscal year.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**Workers' Compensation**

For fiscal year 2016, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (See Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control, and actuarial services to the GRP.

**Employee Medical Benefits**

For fiscal year 2016, the School District participated in the Preble County Schools Regional Council of Governments (the "Council"), a shared risk pool consisting of five local school districts and an educational service center (See Note 16). The School District pays monthly premiums to the Council for employee medical benefits. The Council is responsible for the management and operations of the program. Upon withdrawal from the Council, a participant is responsible for the payment of all of the Council's liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

**Plan Description - School Employees Retirement System (SERS)**

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$156,885 for fiscal year 2016. Of this amount \$4,001 is reported as an intergovernmental payable.

**Plan Description - State Teachers Retirement System (STRS)**

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$535,536 for fiscal year 2016. Of this amount \$90,319 is reported as an intergovernmental payable.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.03854500%	0.03772063%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.03649010%</u>	<u>0.03520776%</u>	
Change in Proportionate Share	<u><u>-0.00205490%</u></u>	<u><u>-0.00251287%</u></u>	
Proportionate Share of the Net Pension Liability	\$2,082,159	\$9,730,395	\$11,812,554
Pension Expense	\$102,846	\$294,948	\$397,794

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$33,527	\$443,584	\$477,111
School District contributions subsequent to the measurement date	<u>156,885</u>	<u>535,536</u>	<u>692,421</u>
Total Deferred Outflows of Resources	<u><u>\$190,412</u></u>	<u><u>\$979,120</u></u>	<u><u>\$1,169,532</u></u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$68,989	\$699,799	\$768,788
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>91,185</u>	<u>583,792</u>	<u>674,977</u>
Total Deferred Inflows of Resources	<u><u>\$160,174</u></u>	<u><u>\$1,283,591</u></u>	<u><u>\$1,443,765</u></u>

\$692,421 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	(\$54,186)	(\$303,869)	(\$358,055)
2018	(54,186)	(303,869)	(358,055)
2019	(54,345)	(303,869)	(358,214)
2020	<u>36,070</u>	<u>71,600</u>	<u>107,670</u>
Total	<u><u>(\$126,647)</u></u>	<u><u>(\$840,007)</u></u>	<u><u>(\$966,654)</u></u>

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Changes Between Measurement Date and Report Date** In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$2,887,208	\$2,082,159	\$1,404,244

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

***Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$13,516,253	\$9,730,395	\$6,528,888

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2016, one member of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

**NOTE 12 - POSTEMPLOYMENT BENEFITS**

**School Employees Retirement System**

**Health Care Plan Description** - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$17,457.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$26,275, and \$27,961, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**State Teachers Retirement System of Ohio**

**Plan Description** – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$38,839, respectively. The full amount has been contributed for all three fiscal years.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

**NOTE 13 – EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Vacation balances only carry over to the next calendar year if the superintendent approves it. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 280 days for both certified and classified employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation up to a maximum of 85 days for classified employees and 70 days for certified employees.

**Insurance Benefits**

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Anthem Life.

**NOTE 14 - LONG-TERM OBLIGATIONS**

The changes in the School District’s long-term obligations during fiscal year 2016 were as follows:

	Amount Outstanding 6/30/15	Additions	Deductions	Amount Outstanding 6/30/16	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Net Pension Liability:					
STRS	\$9,174,962	\$555,433	\$0	\$9,730,395	\$0
SERS	1,950,740	131,419	0	2,082,159	0
Total Net Pension Liability	11,125,702	686,852	0	11,812,554	0
Compensated Absences	369,210	78,365	88,918	358,657	4,996
Total Long-Term Obligations	<u>\$11,494,912</u>	<u>\$765,217</u>	<u>\$88,918</u>	<u>\$12,171,211</u>	<u>\$4,996</u>

The School District pays obligations related to employee compensation from the fund benefitting from their service. Compensated Absences will be paid from the General Fund. For additional information related to the net pension liability see Note 11.

The School District’s overall legal debt margin was \$12,071,580, with an unvoted debt margin of \$134,129 at June 30, 2016.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 15 - INTERFUND ACTIVITY**

Transfers made during the fiscal year ended June 30, 2016, were as follows:

<b>Transfers From</b>	<b>Transfers To</b>
	Nonmajor Governmental Funds
General Fund	<u>\$13,016</u>
	<u>\$13,016</u>

Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds.

**NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS, INSURANCE PURCHASING POOLS, AND SHARED RISK POOL**

**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 board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designing management. Each School District's degree of control is limited to its representation on the board. The School District paid SWOCA \$62,115 for services provided during the fiscal year. Financial information can be obtained from Donna Davis Norris, Executive Director of SWOCA at 3611 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 and educational service centers in 12 counties. The purpose of SOEPC 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.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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Each member district has one voting representative. 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. The board exercises total control over the operations of the Council including budgeting, appropriating, contracting and designing management. Each School District's degree of control is limited to its representation on the board. During fiscal year 2016, the School District paid \$690 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 formed under Chapter 1702 of the Ohio Revised Code. The purpose of SOITA 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 21 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. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a State or local government, for a public purpose. The board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designing management. Each School District's degree of control is limited to its representation on the board. Payments to SOITA are made from the General Fund. During fiscal year 2016, the School District paid \$698 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Frank DePalma, who serves as Interim Executive Director, at 1205 East Sixth Street, Dayton, Ohio 45402.

**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 11 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 the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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*Ohio School Plan*

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP was 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 sole purpose of enabling members of the OSP to provide for a formalized, jointly administered self-insurance program to maintain adequate self-insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a 13 member Board of Directors consisting of school district superintendents and treasurers. The OSP has an agreement with Hylant Administrative Services, LLC to provide underwriting, claims management, risk management, accounting, system support services, sales and marketing to the OSP. Hylant Administrative Services, LLC also coordinates reinsurance brokerage services for the OSP.

**Shared Risk Pool**

*Preble County Schools Regional Council of Governments:*

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

**NOTE 17 - SET-ASIDE CALCULATION**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the 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 identifies the change in the fiscal year-end set-aside amounts for capital acquisition. Disclosure of this information is required by State statute.

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

	Capital Improvements
Set-aside Balance as of June 30, 2015	\$122,575
Current Fiscal Year Set-aside Requirement	171,232
Current Fiscal Year Offsets	(117,712)
Total	\$176,095
Set-aside Balance Carried Forward to Future Fiscal Years	\$176,095
Set-aside Balance as of June 30, 2016	\$176,095

**NOTE 18 - FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General Fund	Governmental Funds	Total
<b><i>Nonspendable</i></b>			
Unclaimed Funds	\$19,640	\$0	\$19,640
Inventory	32,619	0	32,619
<b><i>Total Nonspendable</i></b>	<b>52,259</b>	<b>0</b>	<b>52,259</b>
<b><i>Restricted for</i></b>			
Set Asides	176,095	0	176,095
Good Samaritan Marketing	40,677	0	40,677
Latchkey	0	2,354	2,354
Food Service Operations	0	9,032	9,032
Student Activities	0	86,326	86,326
Capital Improvements	0	195,975	195,975
<b><i>Total Restricted</i></b>	<b>\$216,772</b>	<b>\$293,687</b>	<b>\$510,459</b>

*(continued)*

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

Fund Balances	General Fund	Nonmajor Governmental Funds	Total
<i>Assigned to</i>			
Purchases On Order	\$153,337	\$0	\$153,337
Principal's Fund	35,731	0	35,731
<i>Total Assigned</i>	189,068	0	189,068
<i>Unassigned (Deficit)</i>	3,270,091	(1,961)	3,268,130
<i>Total Fund Balances</i>	\$3,728,190	\$291,726	\$4,019,916

**Note 19 - SIGNIFICANT COMMITMENTS**

**Encumbrances**

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	\$157,926
Other Governmental Funds	262,351
Total	<u>\$420,277</u>

**Contractual Commitments**

The following table provides a summary of the outstanding contractual commitments as of June 30, 2016:

Contractor	Contract Amount	Amount Expended	Amount Remaining
ARCON Builders, Ltd.	\$231,421	\$74,345	\$157,076

**Tri-County North Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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**NOTE 20 - CONTINGENCIES**

**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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.

**School Foundation**

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School District.

**Litigation**

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

**Tri-County North Local School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Three Fiscal Years (1)*

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.03649010%	0.03854500%	0.03854500%
School District's Proportionate Share of the Net Pension Liability	\$2,082,159	\$1,950,741	\$2,292,147
School District's Covered-Employee Payroll	\$1,098,543	\$979,183	\$955,122
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	189.54%	199.22%	239.98%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

**Tri-County North Local School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Three Fiscal Years (1)*

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.03520776%	0.03772063%	0.03772060%
School District's Proportionate Share of the Net Pension Liability	\$9,730,395	\$9,174,962	\$10,929,155
School District's Covered-Employee Payroll	\$3,632,729	\$3,801,836	\$4,104,900
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	267.85%	241.33%	266.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

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**Tri-County North Local School District, Ohio**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*School Employees Retirement System of Ohio*  
*Last Nine Fiscal Years (1)*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$156,885	\$144,788	\$135,715	\$132,189
Contributions in Relation to the Contractually Required Contribution	<u>(156,885)</u>	<u>(144,788)</u>	<u>(135,715)</u>	<u>(132,189)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$1,120,607	\$1,098,543	\$979,183	\$955,122
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

(1) Information prior to 2008 is not available.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$156,959	\$59,930	\$229,330	\$130,582	\$116,921
<u>(156,959)</u>	<u>(59,930)</u>	<u>(229,330)</u>	<u>(130,582)</u>	<u>(116,921)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,166,984	\$476,774	\$1,693,725	\$1,327,052	\$1,190,644
13.45%	12.57%	13.54%	9.84%	9.82%

**Tri-County North Local School District, Ohio**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$535,536	\$508,582	\$494,239	\$533,637
Contributions in Relation to the Contractually Required Contribution	<u>(535,536)</u>	<u>(508,582)</u>	<u>(494,239)</u>	<u>(533,637)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$3,825,257	\$3,632,729	\$3,801,836	\$4,104,900
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$596,059	\$611,984	\$609,044	\$597,848	\$591,416	\$566,302
<u>(596,059)</u>	<u>(611,984)</u>	<u>(609,044)</u>	<u>(597,848)</u>	<u>(591,416)</u>	<u>(566,302)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$4,585,069	\$4,707,569	\$4,684,954	\$4,598,831	\$4,549,354	\$4,356,169
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Tri-County North Local School District, Preble County, (the School District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 6, 2017.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 6, 2017



# Dave Yost • Auditor of State

TRI-COUNTY NORTH LOCAL SCHOOL DISTRICT

PREBLE COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
AUGUST 3, 2017