



**Auditor of State  
Betty Montgomery**



**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

North Union Local School District  
Union County  
12920 State Route 739  
Richwood, Ohio 43344

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Union Local School District, Union County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Union Local School District, Union County, Ohio, as of June 30, 2004, and the respective changes in financial position and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

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



**Betty Montgomery**  
Auditor of State

February 14, 2005

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

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The discussion and analysis of North Union Local School Districts' financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

*Overall:*

- For governmental activities, net assets increased by \$1,900,687 to \$11,283,997 from 2003.
- General revenues accounted for \$12.45 million in revenue or 92 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1.12 million or 8 percent of total governmental revenues of \$13.57 million.
- The School District had \$11.67 million in expenses related to governmental activities; only \$1.12 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$10.55 million were adequate to provide for these programs.
- Among major funds, the general fund had \$11.18 million in revenues and \$9.91 million in expenditures. The general fund's fund balance increased to \$7.04 million from \$6.07 million.

**Using this Financial 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 North Union 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.

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

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**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that 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, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the activities of the School District are reported as Governmental Activities including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

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

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 12. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multitude of financial transactions. However, these 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 balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual*, 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 governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.



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

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**The School District as a Whole**

*Governmental Activities*

Table 1 shows net assets for fiscal years 2004. Since this is the first year the District has prepared financial statements following GASB Statement 34, net asset comparisons to prior fiscal years are not available.

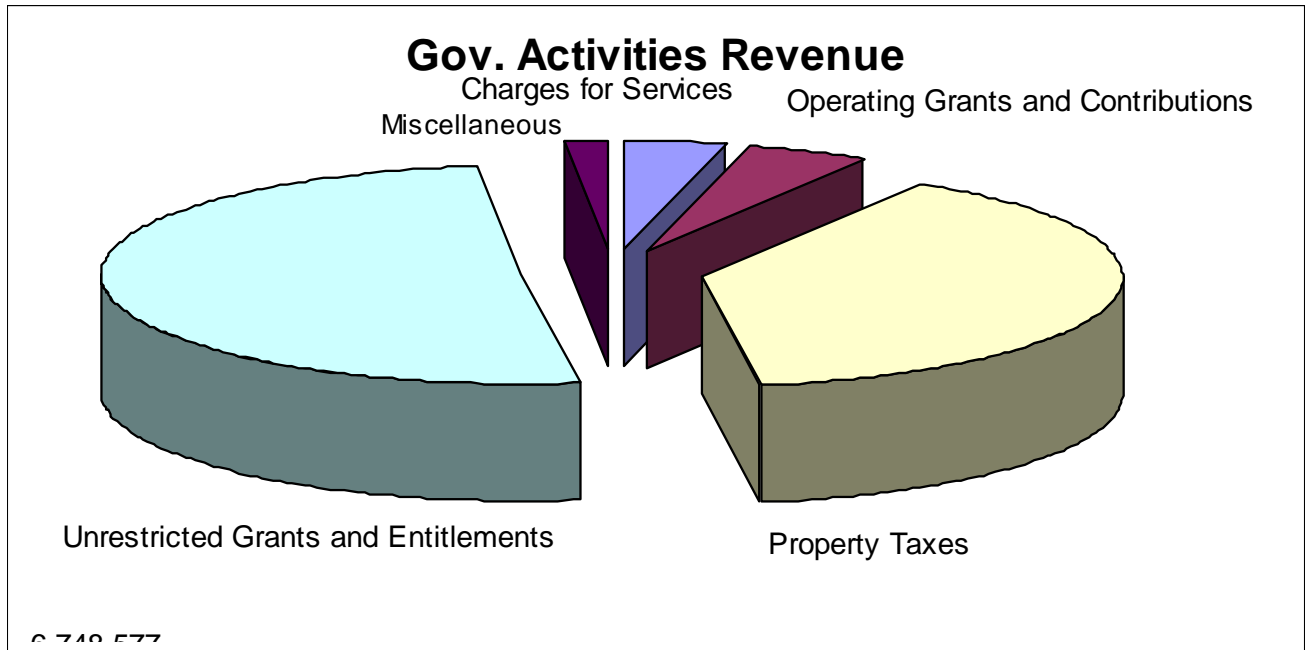
**Table 1**  
**6/30/2004**

	Governmental Activities
Assets	
Current and Other Assets	16,860,000
Capital Assets	13,562,276
Total Assets	30,422,276
Liabilities	
Long-Term Liabilities	14,067,831
Other Liabilities	5,070,448
Total Liabilities	19,138, 279
Net Assets	
Invested in Capital Assets Net of Debt	275,804
Restricted Net Assets	4,487,412
Unrestricted Net Assets	6,520,781
Total Net Assets	11,283,997

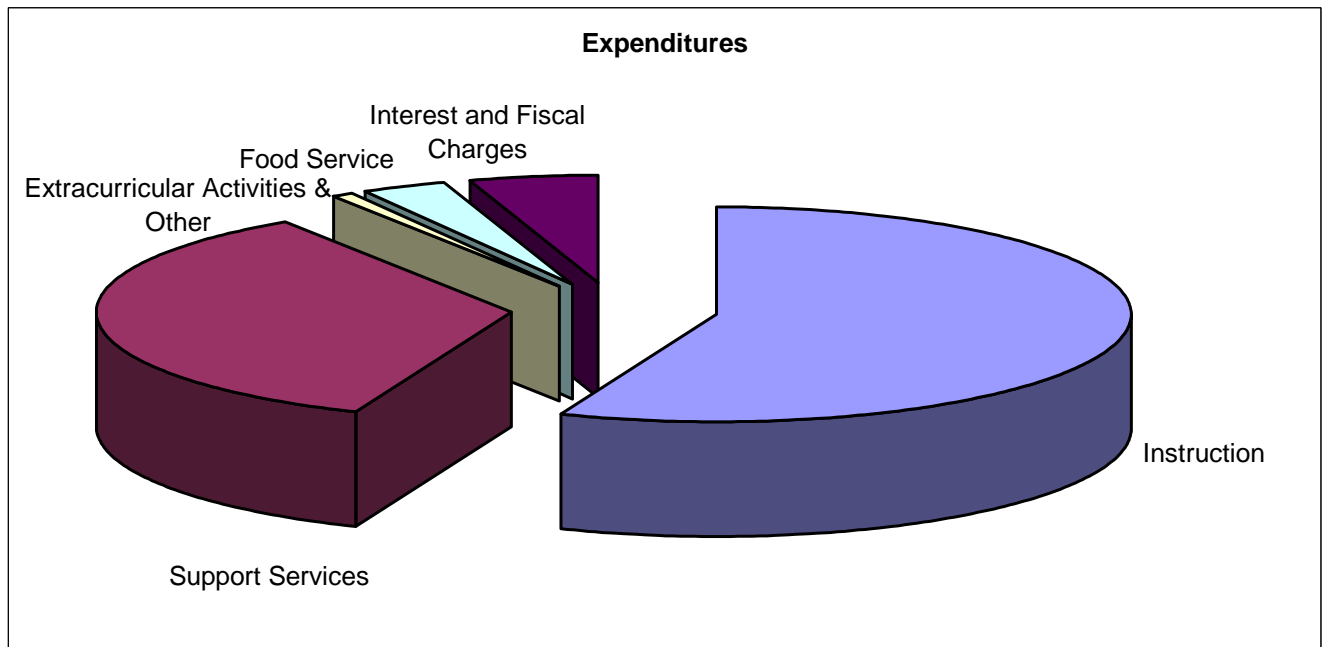
What are the School Districts Revenue Sources? The following pie graph provides a summary of the School District's Governmental Activities Revenue sources for 2004.

North Union Local School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004

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Where does the School District spend its revenues? The following pie graph provides a summary of the School District's Governmental Activities Expenditures for 2004.



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

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 43 percent of general revenue for governmental activities for North Union Local School District in fiscal year 2004.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 2 shows, for governmental activities, the total cost of program revenues and the net cost of those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

**Table 2**

	2004	2004
	<b>Total Cost</b>	<b>Net Cost</b>
	<b>Of Service</b>	<b>of Service</b>
Instruction	\$6,441,997	\$6,049,784
Support Services:		
Pupils and Instructional Staff	981,489	865,927
Board of Education, Administration & Fiscal	1,351,622	1,295,184
Operation and Maintenance of Plant	922,869	922,869
Pupil Transportation	660,502	640,586
Central	28,328	8,022
Extracurricular Activities	310,012	176,760
Food Service	395,620	20,642
Interest and Fiscal Charges & Other	<u>573,511</u>	<u>568,982</u>
<b>Total Expenses</b>	<b><u>\$11,665,950</u></b>	<b><u>\$10,548,756</u></b>

The dependence upon general tax revenues for governmental activities is apparent. Over 92 percent of instruction activities are supported through taxes and other general revenues; for all governmental activities general revenue support is 90 percent as shown in the above table. The community, as a whole, is by far the primary support for North Union Local School Districts students.

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

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***The School District's Funds***

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$13.54 million and expenditures of \$20.08 million. The net change in fund balance for the year was most significant in the Capital Projects Fund, where the fund balance decreased by \$7.84 million for fiscal year 2004 due construction of new facilities.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2004 the School District amended its General Fund budget several times. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$1.85 million over the original budget estimate of \$9.24 million. Almost all of this \$1.85 million difference can be attributed to intergovernmental revenue being greater than original estimates. This revenue line item can fluctuate depending upon student enrollment and state allocations and is budgeted on a conservative basis to avoid revenue overestimations.

Total actual expenditures on the budget basis (cash outlays plus encumbrances) were \$10.45 million, \$.64 million less than revenues.

***Capital Assets and Debt Administration***

At the end of fiscal year 2004, the School District had \$13.5 million (net) invested in land, buildings, equipment and vehicles, all in governmental activities.

Table 4 shows fiscal 2004 gross fixed asset balances for governmental type activities. Additional capital asset information can be found in the notes to the financial statements.

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

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**Table 3**

	Total
Land	558,809
Buildings & Improvements	4,140,881
Construction-in-Progress	8,577,950
Furniture/Equipment	4,155,192
Vehicles	1,070,244
Totals	18,503,076

The increase in capital assets is due primarily to new construction related to the construction of a new 91,440 Sq. Ft., PreK-5 elementary school. The District continued its ongoing commitment to maintaining and improving its fixed assets.

For fiscal year 1999, a change in Ohio law required school districts to set aside two percent of certain revenues for capital improvements and an additional two-percent for textbooks/instructional supplies; this amount was increased to three percent beginning in fiscal year 2000. For fiscal year 2004, this amounted to \$202,482 for each set aside. For fiscal year 2004, the School District had qualifying disbursements or offsets exceeding these requirements for capital improvements and textbooks/instructional supplies.

**Debt**

At June 30, 2004, the School District had \$12,884,989 in bonds. The District did not issue any additional debt during fiscal year 2004. Principal payments for these bonds totaled \$115,000 for fiscal year 2004.

**Current Financial Related Activities**

Declining state foundation payments due to increased property valuations provide no significant increase in future revenues. This decline is due to the increasing valuation charge-offs in determining state foundation payments. The increases in property tax revenues are almost offset by decreases in state foundation payments. Although the District's revenues are keeping pace with its expenditures, if expenditures were to increase the District would have to seek additional tax revenues to continue current operations. However, the District cannot look to the State of Ohio for increased revenue.

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

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This scenario requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's system of budgeting and internal controls is well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

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

This financial report is designed to provide our citizen's, 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 Scott Maruniak, CFO/ Treasurer at North Union Local School District, 12920 State Route 739, Richwood, Ohio 43344.

**North Union Local School District**  
**Statement of Net Assets**  
**June 30, 2004**

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 12,583,869
Restricted Cash with Fiscal Agent	16,484
Receivables:	
Taxes	4,205,441
Accounts	279
Intergovernmental	41,711
Inventory	12,216
Nondepreciable Capital Assets	9,136,759
Depreciable Capital Assets (Net of Accumulated Dep)	4,425,517
<i>Total Assets</i>	30,422,276
<b>Liabilities</b>	
Accounts Payable	663,938
Accrued Wages and Benefits	1,044,946
Accrued Interest	43,162
Intergovernmental Payable	12,018
Deferred Revenue	3,306,384
Long Term Liabilities:	
Due Within One Year	578,991
Due In More Than One Year	13,488,840
<i>Total Liabilities</i>	19,138,279
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	275,804
Restricted for:	
Capital Projects	4,062,290
Debt Service	255,623
Other Purposes	169,499
Unrestricted	6,520,781
<i>Total Net Assets</i>	\$ 11,283,997

See accompanying notes to the basic financial statements.

**North Union Local School District**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2004**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Current:					
Instruction:					
Regular	\$ 4,492,871	\$ 0	\$ 35,517	\$ 25,850	\$ (4,431,504)
Special	1,231,622	0	326,235	0	(905,387)
Vocational	385,832	0	1,011	0	(384,821)
Other	331,672	3,600	0	0	(328,072)
Support services:					
Pupils	365,161	0	77,163	0	(287,998)
Instructional staff	616,328	0	38,399	0	(577,929)
Board of education	75,903	0	0	0	(75,903)
Administration	866,343	0	56,438	0	(809,905)
Fiscal	409,376	0	0	0	(409,376)
Operation and maintenance of plant	922,869	0	0	0	(922,869)
Pupil transportation	660,502	0	19,916	0	(640,586)
Central	28,328	0	20,306	0	(8,022)
Operation of non-instructional services	4,438	0	4,529	0	91
Extracurricular activities	310,012	132,971	281	0	(176,760)
Food service	395,620	371,913	3,065	0	(20,642)
Interest and fiscal charges	569,073	0	0	0	(569,073)
<b>Total Governmental Activities</b>	<b>11,665,950</b>	<b>508,484</b>	<b>582,860</b>	<b>25,850</b>	<b>(10,548,756)</b>

**General Revenues**

Property Taxes Levied for:

General Purposes	4,471,752
Debt Service	790,527
Capital Outlay	129,123

Grants and Entitlements not Restricted to Specific Programs	6,849,483
Investment Earnings	185,579
Miscellaneous	22,979

Total General Revenues 12,449,443

Change in Net Assets 1,900,687

Net Assets Beginning of Year (Restated, See Note 3) 9,383,310

Net Assets End of Year \$ 11,283,997

See accompanying notes to the basic financial statements.



**North Union Local School District  
Balance Sheet  
Governmental Funds  
June 30, 2004**

	General	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 7,488,044	\$ 4,646,019	\$ 218,174	\$ 210,168	\$ 12,562,405
Restricted Cash with Fiscal Agents	-	-	16,484	-	16,484
Restricted Asset-Equity in Pooled Cash	21,464	-	-	-	21,464
Receivables:					
Taxes	3,315,222	166,878	723,341	-	4,205,441
Accounts	225	-	-	54	279
Intergovernmental	-	-	-	41,711	41,711
Interfund Receivable	2,388	-	-	-	2,388
Inventories	-	-	-	12,216	12,216
<i>Total Assets</i>	<u>10,827,343</u>	<u>4,812,897</u>	<u>957,999</u>	<u>264,149</u>	<u>16,862,388</u>
<b>Liabilities</b>					
Accounts Payable	60,302	601,368	-	2,268	663,938
Accrued Wages and Benefits	968,158	-	-	76,788	1,044,946
Pension Obligation Payable	145,879	-	-	12,513	158,392
Interfund Payable	-	-	-	2,388	2,388
Intergovernmental Payable	11,325	-	-	693	12,018
Bonds Payable	-	-	16,484	-	16,484
Deferred Revenue	2,602,754	149,239	642,730	12,089	3,406,812
<i>Total Liabilities</i>	<u>3,788,418</u>	<u>750,607</u>	<u>659,214</u>	<u>106,739</u>	<u>5,304,978</u>
<b>Fund Balances</b>					
Reserved for:					
Encumbrances	475,257	1,832,431	-	12,545	2,320,233
Property Taxes	322,733	17,639	80,611	-	420,983
Budget Stabilization	21,464	-	-	-	21,464
Inventory	-	-	-	12,216	12,216
Unreserved:					
Undesignated	6,219,471	2,212,220	218,174	132,649	8,782,514
<i>Total Fund Balances</i>	<u>7,038,925</u>	<u>4,062,290</u>	<u>298,785</u>	<u>157,410</u>	<u>11,557,410</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 10,827,343</u>	<u>\$ 4,812,897</u>	<u>\$ 957,999</u>	<u>\$ 264,149</u>	<u>\$ 16,862,388</u>

See accompany notes to the basic financial statements

**North Union Local School District**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2004**

Total Governmental Fund Balances		\$ 11,557,410
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		13,562,276
<p>Other long-term assets are not available to pay for current period expenditures and therefore deferred in the funds:</p>		
Intergovernmental Receivable	\$ 12,089	
Property Taxes Receivable	88,339	
		100,428
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:</p>		
General Obligation Bonds and Long-term Loans	\$ 13,269,989	
Accrued Interest	43,162	
Compensated Absences	523,851	
Pension Obligation	99,115	
		(13,936,117)
Total net assets-governmental activities		\$ 11,283,997

**North Union Local School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2004**

	General	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 4,404,767	\$ 129,123	\$ 790,527	\$ 54,483	\$ 5,378,900
Intergovernmental	-	-	-	93,212	93,212
Interest	102,756	82,568	-	255	185,579
Tuition and Fees	3,600	-	-	-	3,600
Extracurricular Activities	-	-	-	132,971	132,971
Unrestricted Grants-State	6,535,038	14,228	94,883	7,473	6,651,622
Restricted Grants-State	122,181	25,850	-	64,850	212,881
Unrestricted Grants-Federal	3,743	-	-	-	3,743
Restricted Grants-Federal	-	-	-	484,646	484,646
Food Services	-	-	-	371,913	371,913
Miscellaneous	10,925	-	-	12,054	22,979
<i>Total Revenues</i>	<u>11,183,010</u>	<u>251,769</u>	<u>885,410</u>	<u>1,221,857</u>	<u>13,542,046</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	4,364,951	25,850	-	99,848	4,490,649
Special	877,010	-	-	351,710	1,228,720
Vocational	414,175	516	-	1,011	415,702
Other	331,672	-	-	-	331,672
Support Services:					
Pupils	295,414	-	-	70,839	366,253
Instructional Staff	567,529	-	-	41,465	608,994
Board of Education	75,903	-	-	-	75,903
Administration	795,070	322	2,144	56,746	854,282
Fiscal	381,029	1,958	13,055	928	396,970
Operation and Maintenance of Plant	912,076	-	-	-	912,076
Pupil Transportation	664,882	-	-	-	664,882
Central	2,612	-	-	25,716	28,328
Operation of Non-Instructional Services	-	-	-	4,252	4,252
Extracurricular Activities	204,696	-	-	91,265	295,961
Food Services	-	-	-	407,844	407,844
Capital Outlay	26,442	8,243,102	-	2,020	8,271,564
Debt Service:					
Principal	-	40,000	115,000	-	155,000
Interest	-	26,123	544,518	-	570,641
<i>Total Expenditures</i>	<u>9,913,461</u>	<u>8,337,871</u>	<u>674,717</u>	<u>1,153,644</u>	<u>20,079,693</u>
<i>Excess of Revenue Over/(Under) Expenditures</i>	<u>1,269,549</u>	<u>(8,086,102)</u>	<u>210,693</u>	<u>68,213</u>	<u>(6,537,647)</u>
<b>Other Financing Sources (Uses)</b>					
Transfers-In	-	250,000	-	50,000	300,000
Transfers-Out	(300,000)	-	-	-	(300,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(300,000)</u>	<u>250,000</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	969,549	(7,836,102)	210,693	118,213	(6,537,647)
<i>Fund Balances Beginning of Year (Restated)</i>	<u>6,069,376</u>	<u>11,898,392</u>	<u>88,092</u>	<u>39,197</u>	<u>18,095,057</u>
<i>Fund Balances End of Year</i>	<u>\$ 7,038,925</u>	<u>\$ 4,062,290</u>	<u>\$ 298,785</u>	<u>\$ 157,410</u>	<u>\$ 11,557,410</u>

See accompany notes to the basic financial statements

**North Union Local School District  
 Reconciliation of the Revenues, Expenditures  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2004**

**Net Change in Fund Balances-Total Governmental Funds** \$(6,537,647)

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. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Outlays	8,703,725	
Current Year Depreciation	<u>(354,040)</u>	
		8,349,685

Revenues in the statement of activities that do not provide current financial resources are deferred in the governmental funds:

Property Taxes	12,502	
Intergovernmental	<u>12,089</u>	
		24,591

Repayment of bonds and long term loans is an expenditure in the governmental funds, the repayment reduces liabilities in the statement of net assets. 155,000

Interest on long-term debt is recognized when due in the governmental funds. However, it is recognized as it accrues in the statement of activities regardless of when it is due. 1,567

Some expenses reported in the statement of net activities do not use the current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated Absences Payable	(78,479)	
Pension Obligation Payable	<u>(14,030)</u>	
		<u>(92,509)</u>

**Changes in net assets of governmental activities** \$ 1,900,687

See accompanying notes to the basic financial statements

**North Union Local School District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget (Non-GAAP Basis) and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 3,579,364	\$ 3,579,364	\$ 4,295,993	\$ 716,629
Intergovernmental	5,549,824	5,549,824	6,660,962	1,111,138
Investment Income	85,615	85,615	102,756	17,141
Tuition and Fees	16,350	16,350	19,624	3,274
Miscellaneous	8,932	8,932	10,720	1,788
<i>Total Revenues</i>	<u>9,240,085</u>	<u>9,240,085</u>	<u>11,090,055</u>	<u>1,849,970</u>
<b>Expenditures:</b>				
<b>Current</b>				
Instruction	6,583,067	6,431,261	6,196,914	234,347
Support Services				
Pupils	329,153	309,562	298,096	11,466
Instructional Staff	658,307	600,880	584,214	16,666
Board of Education	87,774	80,301	89,339	(9,038)
Administration	877,741	871,987	841,154	30,833
Fiscal	329,153	360,588	382,226	(21,638)
Operation and Maintenance of Plant	1,097,177	984,617	1,101,594	(116,977)
Pupil Transportation	768,024	670,344	647,159	23,185
Central	2,853	2,853	2,668	185
Extracurricular Activities	219,436	233,271	220,575	12,696
Facilities Acquisition and Construction	21,943	28,274	85,908	(57,634)
<i>Total Expenditures</i>	<u>10,974,628</u>	<u>10,573,938</u>	<u>10,449,847</u>	<u>124,091</u>
Excess of Revenues Over (Under) Expenditures	(1,734,543)	(1,333,853)	640,208	1,974,061
<b>Other Financing Sources (Uses):</b>				
Advances In	28,500	28,500	28,500	0
Advances Out	(2,388)	(2,388)	(2,388)	0
Transfers Out	(300,000)	(300,000)	(300,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(273,888)</u>	<u>(273,888)</u>	<u>(273,888)</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(2,008,431)	(1,607,741)	366,320	1,974,061
<i>Fund Balance at Beginning of Year</i>	5,881,840	5,881,840	5,881,840	0
Prior Year Encumbrances Appropriated	700,360	700,360	700,360	0
<i>Fund Balance at End of Year</i>	<u>\$ 4,573,769</u>	<u>\$ 4,974,459</u>	<u>\$ 6,948,520</u>	<u>\$ 1,974,061</u>

See accompanying notes to the basic financial statements.

**North Union Local School District  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2004**

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 63,420	\$ 136,378
Total Assets	<u>63,420</u>	<u>136,378</u>
<b>Liabilities</b>		
Accounts Payable	-	11,441
Intergovernmental Payable	-	60,388
Due to Students	-	64,549
Total Liabilities	-	<u>\$ 136,378</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>63,420</u>	
Total Net Assets	<u>\$ 63,420</u>	

See accompanying notes to the basic financial statements

**North Union Local School District  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2004**

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Addition</b>	
Interest	\$ 758
Miscellaneous	5,411
	6,169
<b>Deduction</b>	9,223
Change in Net Assets	(3,054)
Net Assets Beginning of Year	66,474
Net Assets End of Year	\$ 63,420

See accompanying notes to the basic financial statements

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**Note 1 - Description of the School District and Reporting Entity**

North Union Local School District (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 and federal guidelines.

The School District is staffed by sixty-seven classified employees and one hundred thirteen certified teaching personnel who provide services to 1,477 students and other community members. The School District currently operates three instructional buildings, an administration building, and a bus garage.

**Reporting Entity**

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure 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 North Union 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. There are no component units of the North Union Local School District.

The School District is associated with one jointly governed organization, Metropolitan Education Council (MEC). This organization is presented in Notes 15 to the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of 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.

**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.

**Note 2 - Summary of Significant Accounting Policies** (continued)

**B. 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 is reported as fund balance. The School District's three major funds are the General Fund, the Debt Service fund, and the Capital Project fund.

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

Debt Service Fund - The Bond Retirement debt service fund is used to account for the accumulation of resources for and the payment of principal and interest on long term general obligations.

Capital Project Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital assets or facilities.

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

Fiduciary Funds

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

**C. Measurement Focus**

Government-Wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 fund financial statements for governmental funds.

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

**D. Basis of Accounting**

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

Revenues - Exchange and Nonexchange 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

**Note 2 - Summary of Significant Accounting Policies** (continued)

Revenues - Exchange and Nonexchange Transactions (continued)

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis, 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.

**Note 2 - Summary of Significant Accounting Policies** (continued)

**E. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is 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 certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue 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.

The appropriations resolution is subject to amendment 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.

**F. Cash and Investments**

To improve cash management, 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 2004, investments included certificate of deposits and STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

**Note 2 - Summary of Significant Accounting Policies** (continued)

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2004 was \$102,756.

Investments of the School District's 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. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed. There were no prepaid items at June 30, 2004

**H. Inventory**

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventories are determined by a physical count. Inventory in governmental funds consists of expendable supplies held for consumption.

**I. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation.

**J. Capital Assets**

All of the School District's capital assets are general capital assets resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of thirty five dollars. 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.

North Union Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 2 - Summary of Significant Accounting Policies** (continued)

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

<u>Description</u>	<u>Useful Lives</u>
Buildings and Building Improvements	30 – 50 years
Furniture, Fixtures and Equipment	10 – 20 years
Vehicles	10 years

**K. Interfund Assets/Liabilities**

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as “Interfund Receivables/Payables”. Interfund balances within governmental activities are eliminated on the statement of net assets.

**L. 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 the School District will compensate the employees for the benefits through time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at fiscal year end, taking into consideration any limits specified in the School District’s termination policy.

**M. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported on 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 funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.



**Note 2 - Summary of Significant Accounting Policies** (continued)

**N. Net Assets**

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

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**O. Fund Balance Reserves**

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, budget stabilization, inventory and encumbrances. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**P. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating. The District has no proprietary funds at June 30, 2004.

**Q. Interfund Transactions**

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

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

**S. Estimates**

The preparation of 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 - Change in Accounting Principles and Restatement of Fund Balance**

**A. Change in Accounting Principles**

For fiscal year 2004 the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003 caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the School District uses for its legally adopted budget when significant budgetary perspective differences result in the School District not being able to present budgetary comparisons for the General Fund and each major special revenue fund. The implementation of this statement did not have any effect on the School District's financial statements for fiscal year 2004.

North Union Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 3 - Change in Accounting Principles and Restatement of Fund Balance** (continued)

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

**B. Restatement of Fund Balance**

The restatement due to the implementation of the above statements and interpretation had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of governmental activities is also presented:

	General	Debt Service	Capital Project	Other Governmental	Total Governmental Activities
Fund Balance June 30, 2003	\$6,069,376	\$88,092	\$11,898,392	\$98,635	\$18,154,495
GASB Statement No. 34 Adjustment:					
Change in Fund Structure	0	0	0	(59,438)	(59,438)
GASB Interpretation No. 6 Adjustment:					
Adjusted Fund Balance	\$6,069,376	\$88,092	\$11,898,392	\$39,197	18,095,057
GASB Statement No. 34 Adjustments:					
Property Taxes Receivable					75,837
Capital Assets					5,212,592
Intergovernmental Payable					(85,085)
Accrued Interest Payable					(44,730)
General Obligation Bonds Payable					(12,999,989)
Compensated Absences Payable					(445,372)
Loans Payable					(425,000)
Governmental Activities Net Assets at June 30, 2003					\$9,383,310

North Union Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 4 - Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations, and changes in fund balances 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 (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

<b>Net Change in Fund Balance</b>	
<b>General Fund</b>	
Budget	\$ 366,320
Adjustments (net):	
Revenue Accruals	66,844
Expenditure Accruals	(24,606)
Encumbrances	<u>560,991</u>
GAAP Basis	<u>\$ 969,549</u>

**Note 5 - Deposits and Investments**

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the 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 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.

**Note 5 - Deposits and Investments** (continued)

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

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (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; and
6. The State Treasurer's investment pool (STAR Ohio).

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. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

North Union Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 5 - Deposits and Investments** (continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the School District had \$16,484 in cash and cash equivalents which is presented as "Restricted Cash with Fiscal Agent".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the School District's deposits was \$3,154,614 and the bank balance was \$3,326,658. Of the bank balance, \$200,000 was covered by federal depository insurance and \$3,126,658 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in STAR Ohio are unclassified since they are not evidenced by securities that exist in physical or book entry form.

	Fair Value
STAR Ohio	<u>9,629,028</u>
Total	<u><u>\$9,629,028</u></u>

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

North Union Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 5 - Deposits and Investments** (continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$12,800,151	\$0
Cash and Cash Equivalents with Fiscal Agent	(16,484)	0
Petty Cash	(25)	
Investments:		
STAR Ohio	(9,629,028)	9,629,028
GASB Statement No. 3	\$3,154,614	\$9,629,028

**Note 6 - Receivables**

Receivables at June 30, 2004, consisted of accounts (student fees and billings for user charged services), intergovernmental, interfund, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Other Governmental Funds	
Food Service	\$ 11,672
Young Farmers	281
Title VI	377
Drug Free School	2,670
ECSE	4,761
IDEA B	3,805
Title I	3,764
Title II A	14,381
Total Other Governmental Funds	\$ 41,711

**Note 7 - Property Taxes and Income Tax**

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

North Union Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 7 - Property Taxes and Income Tax** (continued)

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2004, and for which there was 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 reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004, was \$322,733 in the General Fund, \$17,639 in the Capital Projects Fund, and \$80,611 in the Debt Service fund.

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



North Union Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 7 - Property Taxes and Income Tax** (continued)

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

Real Property – Commercial/Industrial	\$4,767,540
Real Property – Residential/Agricultural	102,400,170
Personal Property – General	2,660,210
Personal Property – Public Utilities	<u>7,919,260</u>
Total Assessed Value	<u>\$117,747,180</u>
Tax rate per \$1,000 of assessed valuation	\$32.75

**Income Tax:**

The District levies a voted tax of 1.0 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, and is a continuing tax. 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 District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund

**Note 8 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$558,809	\$0	\$0	\$558,809
Construction in Progress	308,405	8,269,545	0	8,577,950
Total Nondepreciable Capital Assets	<u>867,214</u>	<u>8,269,545</u>	<u>0</u>	<u>9,136,759</u>
Depreciable Capital Assets				
Land Improvements	0	0	0	0
Buildings and Building Improvements	4,140,881	0	0	4,140,881
Furniture, Fixtures, and Equipment	3,768,466	446,310	(59,584)	4,155,192
Vehicles	1,055,435	14,809	0	1,070,244
Total Depreciable Capital Assets	<u>8,964,782</u>	<u>461,119</u>	<u>(59,584)</u>	<u>9,366,317</u>
Total Accumulated Depreciation	<u>(4,619,404)</u>	<u>(354,040)</u>	<u>32,645</u>	<u>(4,940,799)</u>
Depreciable Capital Assets, Net	<u>4,345,378</u>	<u>107,079</u>	<u>(26,939)</u>	<u>4,425,518</u>
Governmental Activities Capital Assets, Net	<u>\$5,212,592</u>	<u>\$8,376,624</u>	<u>\$(26,939)</u>	<u>\$13,562,277</u>

North Union Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 8 - Capital Assets** (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$143,081
Special	2,718
Vocational	4,464
Support Services:	
Pupils	548
Instructional Staff	22,762
Administration	6,111
Fiscal	1,604
Operation and Maintenance of Plant	49,660
Pupil Transportation	87,675
Non-Instructional Services	12,544
Extracurricular Activities	22,873
Total Depreciation Expense	<u>\$354,040</u>

**Note 9 - Interfund Assets/Liabilities**

At June 30, 2004, the General Fund had an interfund receivable in the amount of \$2,388. Other governmental funds had an interfund payable, in the amount of \$2,388.

**Note 10 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted for the following insurance coverage.

General Liability	
Per Occurrence	\$1,000,000
Aggregate	3,000,000
Building and Contents	23,370,897

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

**Note 10 - Risk Management (Continued)**

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**Note 11 - Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed, and supported, in whole or in part, by the state or any political subdivision thereof. .

Plan Options- New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their members contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits- Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%.

**Note 11 - Defined Benefit Pension Plans (Continued)**

**A. State Teachers Retirement System (Continued)**

Under the “money purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits- Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits- Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan. A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants. The Defined Benefit and Combined Plans offer access to health coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly medicare Part B premiums. By Ohio law, health care benefits are not guaranteed. A Defined Benefit or Combined Plan member with five or more years’ credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$ 1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$ 2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

**Note 11 - Defined Benefit Pension Plans (Continued)**

**A. State Teachers Retirement System (Continued)**

Contribution requirements and the contributions annually made for the fiscal year ended June 30, 2004, were 10% of covered payroll for members and 14% for employers. The District's required contributions for pension obligations to STRS for fiscal the fiscal years ended June 30, 2004, 2003, and 2002 were \$452,096, \$432,684, and \$ 417,592, respectively; 83.33 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002. STRS Ohio issues a stand-alone financial report. Copies fo STRS Ohio's 2004 Comprehensive Annual Financial Report will be available after January 1, 2005. Additional information or copies of STRS Ohio's 2004 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St. Columbus, Oh 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$72,066, \$68,830, and \$64,117, respectively; 44 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System.

**Note 12 - Postemployment Benefits**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums.

**Note 12 - Postemployment Benefits (Continued)**

The State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount was \$44,873.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004 all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of services, medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below poverty levels. Premiums are reduced by 50% for those who apply.

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

Health care benefits are financed on a pay as you go basis. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses before premium deduction. Expenses for health care at June 30, 2004, were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS net assets available for payment of health care benefits was \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, during fiscal year 2004 equaled \$ 85,074.

**Note 13 – Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from board policy, negotiated agreements and State laws. Only the Superintendent and twelve-month, classified employees earn ten to twenty days of vacation per year, depending upon length of service. School support personnel accumulate vacation based on the following factors:

Length of Service	Vacation Leave
After 1 Year	10 Days
5 or more Years	15 Days
10 or more Years	20 Days

North Union Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 13 – Compensated Absences (Continued)**

The following table represents the limit placed on employee vacation time based on the years of service to the district:

Length of Service	Limit of Accrued Vacation
0- 1 Years	10 Days
1-5 Years	20 Days
6-10 Years	25 Days
10+ Years	30 Days

**Vacation Pay:** A full-time employee may be paid for unused vacation days, not to exceed ten (10) days. This may be done no more than once a year, and requires the approval of the Superintendent. Payment for unused vacation time shall be made at the employee's current rate of pay. Both the Superintendent and Treasurer earn 20 days of vacation per year, and have an accrued limit of 30 days.

**Sick Leave:** Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days.

**Service Retirement:** Upon retirement, employees shall receive in one lump sum, one-fourth (1/4) of the accumulated sick leave days up to a maximum of thirty-five (35) days at the per diem rate at the time of retirement. In addition, the Board will provide the following bonus retirement pay for those long-term employees who have accumulated more than the one hundred twenty (120) days of sick leave. A bonus retirement based on years of service to the District will be granted as follows:

Length of Service	Bonus Days Paid
10 Years	1 Day
15 Years	2 Days
20 Years	3 Days
25 Years	4 Days
30 Years	5 Days

**Retirement Incentive:** For certified staff members, the Board also provides a retirement incentive in addition to other severance payments. Retirement incentives will be granted to those retiring certified staff members 55 years of age or older, based on the following schedule:

End of Service Year	Amount
25th or 30 <sup>th</sup>	\$5,000
26th or 31 <sup>st</sup>	\$3,000
27th or 32 <sup>nd</sup>	\$1,000

North Union Local School District  
Notes to the Basic Financial Statements  
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**Note 14 - General Long-Term Debt**

A summary of changes in long-term obligations for the year ended June 30, 2004, are as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Amount Due Within One Year
Intergovernmental Payable	\$85,085	257,507	85,085	257,507	\$257,507
General Obligation Bonds	12,999,989	0	115,000	12,884,989	260,000
Building Loan	425,000	0	40,000	385,000	45,000
Compensated Absences	445,372	523,851	445,372	523,851	0
	<u>\$13,955,446</u>	<u>781,358</u>	<u>685,457</u>	<u>14,051,347</u>	<u>\$562,507</u>

**Building Loan:**

To implement a building renovations project for Jackson Elementary and North Union High School, the District entered into a building loan program in December, 2000, with the Richwood Banking Company. The loan program, in the amount of \$500,000, is in accordance with Section 3313.375 of the Ohio Revised Code. The District will make loan payments to the Richwood Banking Company at an average rate of 6.45% over a ten-year period.

The schedule of principal and related interest payments is as follows:

<u>Building Loan Payment Schedule</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
FY2005	\$45,000	23,381	\$68,381
FY2006	50,000	20,318	70,318
FY2007	50,000	17,093	67,093
FY2008	55,000	13,706	68,706
FY2009 & thereafter	185,000	18,221	203,221
TOTAL	<u>\$385,000</u>	<u>92,719</u>	<u>\$477,719</u>



North Union Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 14 - General Long-Term Debt (Continued)**

**General Obligation Bonds:**

In August, 2002, the District issued general obligation bonds for the purpose of constructing and renovating the District' school buildings. The bonds, in the amount of \$12,999,989, were issued for 28 years at an average rate of 4.69%.

Principal and interest requirements to retire the general obligation bonds at June 30, 2004, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
FY2005	\$260,000	538,892	\$798,892
FY2006	350,000	531,317	881,317
FY2007	203,918	527,642	731,560
FY2008	182,719	527,642	710,361
FY2009 & thereafter	11,888,352	7,435,597	19,323,949
<b>TOTAL</b>	<b>\$12,884,989</b>	<b>9,561,090</b>	<b>\$22,446,079</b>

**Debt Limitations:**

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the District as listed and assessed for taxation, unless approved by the State Superintendent of Instruction. In addition, the unvoted net debt of a school district cannot exceed .1% of the total assessed value of property. The District's unvoted debt limit is \$117,747. The voted debt limit at June 30, 2004 is \$10,597,246.

**Note 15 - Jointly Governed Organizations**

Metropolitan Education Council (MEC) - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC. MEC provides computer service to the District.

**Note 16 - School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State' school funding plan. The decision reaffirm earlier decisions that Ohio's current school funding decision is unconstitutional.

North Union Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**Note 16 - School Funding Decision (Continued)**

The Supreme Court relinquished jurisdiction over the case and directed A...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..

On March 4, 2003, the plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such a court schedule and conduct a conference to address the State's compliance with the orders of such court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a writ of prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further stated again its ruling made on December 11, 2002.

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**Note 17 - Statutory Reserves**

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	Textbook Acquisition	Capital Acquisition	Budget Stabilization	Total
Set aside Cash Balance as of June 30, 2004	\$ (332,289)	0	21,464	\$ (310,825)
Current Year Set-Aside Requirement	202,482	202,482	0	404,964
Current Year Offsets	0	0	0	0
Qualifying Disbursements	(556,485)	(341,672)	0	(898,157)
<b>Total</b>	<b>\$ (686,292)</b>	<b>(139,190)</b>	<b>21,464</b>	<b>\$ (804,018)</b>
Cash Balance Carried Forward to FY2005	<b>\$ (686,292)</b>	<b>\$ 0</b>	<b>\$ 21,464</b>	
Amount Restricted for Budget Stabilization				<b>\$ 21,464</b>
Total Restricted Assets				<b>\$ 21,464</b>

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disburse- ments</u>	<u>Non-Cash Disburse- ments</u>
<b><u>UNITED STATES DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Union County Farm Service Agency</i>						
Production Flexibility Payments for Contract Commodities	N/A	10.055	\$ 949	\$ -	\$ 949	\$ -
<i>Passed Through the Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	-	14,015	-	14,015
National School Lunch Program	65268-LLP4-02/03	10.555	80,927	-	80,927	-
Total Nutrition Cluster			<u>80,927</u>	<u>14,015</u>	<u>80,927</u>	<u>14,015</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u><b>81,876</b></u>	<u><b>14,015</b></u>	<u><b>81,876</b></u>	<u><b>14,015</b></u>
<b><u>UNITED STATES DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	050336-6BSF-2003	84.027	-	-	8,321	-
	050336-6BSF-2004		164,433	-	158,115	-
			<u>164,433</u>	<u>-</u>	<u>166,436</u>	<u>-</u>
Special Education - Preschool Grant	050336-PGS1-2003	84.173	4,689	-	4,689	-
Total Special Education Cluster			<u>169,122</u>	<u>-</u>	<u>171,125</u>	<u>-</u>
Title I Grants to Local Educational Agencies	050336-C1S1-2003	84.010	27,882	-	29,820	-
	050336-C1S1-2004		212,179	-	196,116	-
			<u>240,061</u>	<u>-</u>	<u>225,936</u>	<u>-</u>
Innovative Educational Program Strategies	050336-C2S1-2003	84.298	-	-	202	-
	050336-C2S1-2004		7,714	-	8,091	-
			<u>7,714</u>	<u>-</u>	<u>8,293</u>	<u>-</u>
Safe and Drug Free School Grants	050336-DRS1-2003	84.186	-	-	1,345	-
	050336-DRS1-2004		7,889	-	9,778	-
			<u>7,889</u>	<u>-</u>	<u>11,123</u>	<u>-</u>
Improving Teacher Quality	050336-TRS1-2003	84.367	12,450	-	13,304	-
	050336-TRS1-2004		63,832	-	62,603	-
			<u>76,282</u>	<u>-</u>	<u>75,907</u>	<u>-</u>
Assistive Technology	050336-ATS2-2002	84.352	(3,127)	-	-	-
Technology Literacy Challenge Grant	050336-TJS1-2003	84.318	-	-	943	-
	050336-TJS1-2004		5,845	-	5,845	-
			<u>5,845</u>	<u>-</u>	<u>6,788</u>	<u>-</u>
Total U.S. Department of Education			<u><b>503,786</b></u>	<u><b>0</b></u>	<u><b>499,172</b></u>	<u><b>0</b></u>
<b>TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES</b>			<u><b>\$585,662</b></u>	<u><b>\$14,015</b></u>	<u><b>\$581,048</b></u>	<u><b>\$14,015</b></u>

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B—CHILD NUTRITION CLUSTER**

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



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

North Union Local School District  
Union County  
12920 State Route 739  
Richwood, Ohio 43344

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the North Union Local School District, Union County, Ohio (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 14, 2005, wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the District's management in a separate letter dated February 14, 2005.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter dated February 14, 2005.

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

This report is intended solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

February 14, 2005



## Auditor of State Betty Montgomery

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

North Union Local School District  
Union County  
12920 State Route 739  
Richwood, Ohio 43344

#### Compliance

We have audited the compliance of the North Union Local School District, Union County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

#### Internal Control Over Compliance

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

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**Internal Control Over Compliance  
(Continued)**

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

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

February 14, 2005



**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 ' .505  
JUNE 30, 2004**

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

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

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 29, 2005**