

BERNE UNION LOCAL SCHOOL DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
Berne Union Local School District
Sugar Grove, Ohio

We have reviewed the Independent Auditor's Report of the Berne Union Local School District, Fairfield County, prepared by Jones, Cochenour & Co., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Berne Union Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 13, 2005

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BERNE UNION LOCAL SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2004

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INDEPENDENT AUDITORS' REPORT

Board of Education
Berne Union Local School District
Sugar Grove, Ohio

We have audited the accompanying basic financial statements of the governmental activities, and, each major fund and the aggregate remaining fund information of Berne Union Local School District, Sugar Grove, 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 Berne Union Local School District, Sugar Grove, Ohio, as of June 30, 2004, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective 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*, Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosure*, Governmental Accounting Standards Board Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*, and Governmental Accounting Standards Board Statement Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 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.

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 applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Jones, Cochenour & Co.
March 8, 2005

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The discussion and analysis of the Berne Union Local School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statements No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the School Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Financial Highlights

- ▶ The assets of Berne Union Local School District exceeded its liabilities at June 30, 2004 by \$6,069,920. This balance was comprised of a \$5,203,263 balance in capital assets net of related debt and net asset amounts restricted for specific purposes and a balance of \$866,657 in unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$157,330, which represents a 2.7 percent increase from 2003.
- ▶ General revenues accounted for \$7,738,652 or 93.29 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$556,358 or 6.71 percent of total revenues of \$8,295,010.
- ▶ The District had \$8,137,680 in expenses related to governmental activities; only \$556,358 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$7,738,652 were used to provide for the remainder of these programs.
- ▶ The District recognizes two major governmental funds: the General Fund and the Bond Retirement Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$6,761,457 in revenues and \$6,860,858 in expenditures in fiscal year 2004.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Berne 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.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

Reporting the District as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. These statements include all assets and liabilities using the accrual basis of accounting which is 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.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some item that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's two major governmental fund are the General Fund and Bond Retirement Fund.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of three categories: governmental, proprietary and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds

The District's only proprietary fund is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the District reports it as a proprietary fund using the accrual basis of accounting. The internal service fund is included with governmental activities on the government-wide financial statements.

Fiduciary Funds

The District's only fiduciary fund is an agency fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Government-Wide Financial Analysis

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2004 compared to fiscal year 2003:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	2004	2003
<u>Assets:</u>		
Current and Other Assets	\$5,289,182	\$5,109,917
Capital Assets, Net	7,992,443	8,368,603
<i>Total Assets</i>	13,281,625	13,478,520
<u>Liabilities:</u>		
Long-Term Liabilities	4,000,277	4,289,138
Other Liabilities	3,211,428	3,276,792
<i>Total Liabilities</i>	7,211,705	7,565,930
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	4,360,455	4,437,125
Restricted	842,808	256,029
Unrestricted	866,657	1,219,436
<i>Total Net Assets</i>	\$6,069,920	\$5,912,590

Current and other assets increased \$179,265 from fiscal year 2003 due to an increase in the taxes receivable of the District. Capital assets decreased by \$376,160 as a result of the current year depreciation and deletions.

Current (other) liabilities decreased \$65,364 partially due to a deferred revenue decrease of \$287,702 related to taxes receivable.

Long-term liabilities decreased \$288,861 due to scheduled payments made on the District's debt outstanding.

The District's largest portion of net assets is related to amounts invested in capital assets, net of related debt. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The District's smallest portion of net assets is unrestricted. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

The remaining balance of \$842,808 is restricted assets. The restricted net assets are subject to external restrictions on how they may be used.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available.

Table 2
Changes in Net Assets

	<u>Governmental Activities 2004</u>
<u>Revenues:</u>	
<i>Program Revenues:</i>	
Charges for Services and Sales	\$245,182
Operating Grants and Contributions	311,176
<i>General Revenues:</i>	
Property Taxes	3,233,394
Unrestricted Grants and Entitlements	3,928,543
Unrestricted Tuition and Fees	480,093
Investment Earnings	23,367
Miscellaneous	<u>73,255</u>
<i>Total Revenues</i>	<u>8,295,010</u>
<u>Expenses:</u>	
<i>Program Expenses:</i>	
<i>Instruction:</i>	
Regular	3,413,038
Special	835,442
Vocational	195,630

(Continued)

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

Table 2
Changes in Net Assets

	<u>2004</u>
<i>Support Services:</i>	
Pupils	309,447
Instructional Staff	455,775
Board of Education	18,740
Administration	647,155
Fiscal	215,312
Business	8,152
Operation and Maintenance of Plant	746,930
Pupil Transportation	599,401
Central	20,329
<i>Operation of Non-Instructional Services:</i>	
Food Service	222,657
Other	10,000
Extracurricular Activities	240,354
Interest and Fiscal Charges	<u>199,318</u>
<i>Total Expenses</i>	<u>8,137,680</u>
<i>Change in Net Assets</i>	157,330
Net Assets – Beginning of Year	<u>5,912,590</u>
Net Assets – End of Year	<u><u>\$6,069,920</u></u>

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The most significant program expenses for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant, Administration and Pupil Transportation. These programs account for 76.71 percent of the total governmental activities. Regular Instruction, which accounts for 41.94 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 10.27 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant, which represents 9.18 percent of the total, represents costs associated with the operating and maintaining the District's facilities. Administration, which represents 7.95 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Pupil Transportation, which represents 7.37 percent of the total cost, represents costs associated with providing transportation services for students between home and school, and to school activities.

The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs accounts for 86.34 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. The District is facing a potential deficit (dependent upon the State's Biennium Budget for Fiscal Year 2006) in fiscal year 2006 and may be placed in Fiscal Caution by the Ohio Department of Education. To avoid the potential deficit, in the Fall of 2003, the Board of Education placed an income tax levy on the ballot. The Board of Education has gone to the voters for a 0.75% income tax and the voters have defeated the levy on three different attempts.

The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. The three year annual revenue percentage increases average 0.66%, while the three year annual expenditures percentage increases average 4.84%. Property taxes made up 38.98 percent and intergovernmental revenue made up 51.11 percent of the total revenue for the governmental activities in fiscal year 2004.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2004, the District received \$3,493,602 through the State's foundation program, which represents 42.12 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

Instruction accounts for 54.61 percent of governmental program expenses. Support services expenses make up 37.13 percent of governmental expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to fiscal year 2003 are not available.

Table 3
Net Cost of Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2004</u>	<u>2004</u>
<i>Program Expenses:</i>		
Instruction	\$4,444,110	\$4,226,696
Support Services	3,021,241	2,992,697
Operation of Non-Instructional Services	232,657	6,222
Extracurricular Activities	240,354	156,389
Interest and Fiscal Charges	199,318	199,318
Total Expenses	<u>\$8,137,680</u>	<u>\$7,581,322</u>

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies and procedures). All governmental funds had total revenues of \$8,010,095 and expenditures of \$8,110,506.

Total governmental funds fund balance decreased by \$100,411. The decrease in fund balance for the year was most significant in the General Fund, a decrease of \$99,401 reflecting expenditures for general operations exceeded revenue received.

Projections beyond fiscal year 2005 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

Budget Highlights - General Fund

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

During the course of fiscal year 2004, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisors flexibility for site management.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education. It should be noted that the District, on the cash basis, ended the fiscal year in deficit spending, and expenditures exceeded revenues by \$241,584.

For the General Fund, the final budget basis revenue was \$6,649,372 representing no change from the original budget estimates. For the General Fund, the final budget basis expenditures were \$7,475,115 representing a decrease of \$17,532 from the original budget expenditures of \$7,495,648. The final budget reflected a 0.23 percent decrease from the original budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$12.0 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$4.0 million. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2004

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
<i>Nondepreciable Capital Assets:</i>		
Land	\$410,820	\$410,820
<i>Depreciable Capital Assets:</i>		
Land Improvements	540,949	540,949
Buildings and Improvements	9,776,577	9,751,526
Furniture, Fixtures and Equipment	346,673	334,577
Vehicles	626,870	702,960
Textbooks	342,869	342,869
<i>Total Capital Assets</i>	<u>12,044,758</u>	<u>12,083,701</u>
<i>Less Accumulated Depreciation:</i>		
Land Improvements	205,592	180,024
Buildings and Improvements	2,925,460	2,696,707
Furniture, Fixtures and Equipment	176,592	165,891
Vehicles	444,794	429,744
Textbooks	299,877	242,732
<i>Total Accumulated Depreciation</i>	<u>4,052,315</u>	<u>3,715,098</u>
Capital Assets, Net	<u>\$7,992,443</u>	<u>\$8,368,603</u>

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

Debt Administration

At June 30, 2004, the District had \$3,570,000 in general obligation debt outstanding with \$255,000 due within one year. Table 5 summarizes the general obligation bonds outstanding for fiscal year 2004 compared to fiscal year 2003.

Table 5
Outstanding Debt, Governmental Activities at Year End

Purpose	2004	2003
General Obligation Bonds	\$3,570,000	\$3,810,000

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

Current Issues

Although considered a mid-wealth district, Berne Union Local School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the District to provide a quality education for our students.

The Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, the Court has in effect decided that they have, barring another lawsuit, completed their responsibility in the case. Ending the high court's involvement has left Ohio with a school funding system that has been determined to be unconstitutional but failed to provide the framework to fix it. At this time there can be no reasonable estimate of the impact on school funding.

The State Legislature has also made several significant changes impacting local taxes:

In 2003, the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

Effective January 1, 2001 non-municipal owned electric utilities and rural cop-ops were deregulated in the State of Ohio. All electric company personal property were reduced from 100 percent assessed value (from 50 percent for rural co-ops) to 25 percent. (Distribution and transmission of personal property will continue to be assessed at 88 percent.) This significantly reduced revenues to certain school districts and moderately affects others.

BERNE UNION LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). 70 percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced from 2002 through 2006; after this a phase out formula would begin.

The Berne Union Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Over the past few years the District has experienced a loss in property parcels due to the construction of the State Route 33 By-Pass and the corresponding land purchases by the State of Ohio. Residential/agricultural property contributes 75 percent of the District's real estate valuation.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Gina Roop, Treasurer of Berne Union Local School Board of Education, 506 North Main Street, Sugar Grove, Ohio 43155.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,884,170
Cash and Cash Equivalents with Fiscal Agent	381,623
Property Taxes Receivable	2,942,189
Accounts Receivable	1,209
Intergovernmental Receivable	9,780
Prepaid Items	50,883
Inventory Held for Resale	4,698
Materials and Supplies Inventory	14,630
Nondepreciable Capital Assets	410,820
Depreciable Capital Assets, Net	<u>7,581,623</u>
<i>Total Assets</i>	<u>13,281,625</u>
<u>Liabilities:</u>	
Accounts Payable	66,215
Accrued Wages and Benefits	542,107
Contracts Payable	9,724
Intergovernmental Payable	298,262
Accrued Interest Payable	13,899
Claims Payable	68
Deferred Revenue	2,281,153
<i>Long-Term Liabilities:</i>	
Due within One Year	360,243
Due in More Than One Year	<u>3,640,034</u>
<i>Total Liabilities</i>	<u>7,211,705</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	4,360,455
<i>Restricted for:</i>	
Capital Projects	19,800
Debt Service	717,239
Other Purposes	105,769
Unrestricted	<u>866,657</u>
<i>Total Net Assets</i>	<u><u>\$6,069,920</u></u>

See accompanying notes to the basic financial statements .

BERNE 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	Governmental Activities
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$3,413,038	\$11,988	\$74,154	(\$3,326,896)
Special	835,442	0	131,272	(704,170)
Vocational	195,630	0	0	(195,630)
<i>Support Services:</i>				
Pupils	309,447	0	0	(309,447)
Instructional Staff	455,775	0	7,766	(448,009)
Board of Education	18,740	0	0	(18,740)
Administration	647,155	0	0	(647,155)
Fiscal	215,312	0	5,000	(210,312)
Business	8,152	0	0	(8,152)
Operation and Maintenance of Plant	746,930	0	3,620	(743,310)
Pupil Transportation	599,401	0	0	(599,401)
Central	20,329	0	12,158	(8,171)
<i>Operation of Non-Instructional Services:</i>				
Food Service	222,657	154,267	72,168	3,778
Other	10,000	0	0	(10,000)
Extracurricular Activities	240,354	78,927	5,038	(156,389)
<i>Debt Service:</i>				
Interest and Fiscal Charges	199,318	0	0	(199,318)
Totals	\$8,137,680	\$245,182	\$311,176	(7,581,322)
<u>General Revenues:</u>				
<i>Property Taxes Levied for:</i>				
General Purposes				2,790,366
Debt Service				443,028
Grants and Entitlements not Restricted to Specific Programs				3,928,543
Unrestricted Tuition and Fees				480,093
Investment Earnings				23,367
Miscellaneous				73,255
<i>Total General Revenues</i>				<u>7,738,652</u>
Change in Net Assets				157,330
<i>Net Assets at Beginning of Year - As Restated (See Note 3)</i>				<u>5,912,590</u>
<i>Net Assets at End of Year</i>				<u><u>\$6,069,920</u></u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2004*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$886,310	\$635,989	\$227,056	\$1,749,355
Property Taxes Receivable	2,487,423	415,160	39,606	2,942,189
Accounts Receivable	1,209	0	0	1,209
Intergovernmental Receivable	0	0	9,780	9,780
Prepaid Items	50,883	0	0	50,883
Inventory Held for Resale	0	0	4,698	4,698
Materials and Supplies Inventory	12,760	0	1,870	14,630
<i>Restricted Assets:</i>				
Equity in Pooled Cash and Cash Equivalents	100,000	0	0	100,000
<i>Total Assets</i>	<u>\$3,538,585</u>	<u>\$1,051,149</u>	<u>\$283,010</u>	<u>\$4,872,744</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$64,222	\$0	\$1,993	\$66,215
Accrued Wages and Benefits	516,734	0	25,373	542,107
Contracts Payable	9,724	0	0	9,724
Intergovernmental Payable	114,220	0	7,705	121,925
Deferred Revenue	2,303,177	375,171	35,994	2,714,342
Compensated Absences Payable	20,199	0	0	20,199
<i>Total Liabilities</i>	<u>3,028,276</u>	<u>375,171</u>	<u>71,065</u>	<u>3,474,512</u>
<u>Fund Balances:</u>				
Reserved for Encumbrances	62,999	0	307	63,306
Reserved for Property Taxes	184,246	39,989	3,612	227,847
Reserved for Set-Asides	100,000	0	0	100,000
<i>Unreserved, Undesignated, Reported in:</i>				
General Fund	163,064	0	0	163,064
Special Revenue Funds	0	0	188,226	188,226
Debt Service Fund	0	635,989	0	635,989
Capital Projects Funds	0	0	19,800	19,800
<i>Total Fund Balances</i>	<u>510,309</u>	<u>675,978</u>	<u>211,945</u>	<u>1,398,232</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,538,585</u>	<u>\$1,051,149</u>	<u>\$283,010</u>	<u>\$4,872,744</u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Funds Balances	\$1,398,232
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,992,443
Some of the District's receivables will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of:	
Property taxes	433,189
Intergovernmental payables include contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(176,337)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds	(3,570,000)
Capital leases	(61,988)
Accrued interest	(13,899)
Compensated absences	(348,090)
Total liabilities that are not reported in the funds	(3,993,977)
An internal service fund is used by management to charge the costs of insurance activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	416,370
<i>Net Assets of Governmental Activities</i>	<u><u>\$6,069,920</u></u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property Taxes	\$2,493,955	\$414,558	\$39,966	\$2,948,479
Intergovernmental	3,757,235	19,952	453,213	4,230,400
Interest	17,355	4,958	1,054	23,367
Tuition and Fees	481,396	0	10,685	492,081
Extracurricular Activities	0	0	78,927	78,927
Charges for Services	0	0	154,267	154,267
Gifts and Donations	0	0	9,319	9,319
Miscellaneous	11,516	20,227	41,512	73,255
<i>Total Revenues</i>	<u>6,761,457</u>	<u>459,695</u>	<u>788,943</u>	<u>8,010,095</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	2,971,581	0	92,297	3,063,878
Special	700,019	0	128,936	828,955
Vocational	186,189	0	0	186,189
<i>Support Services:</i>				
Pupils	299,599	0	3,851	303,450
Instructional Staff	319,404	0	127,074	446,478
Board of Education	19,234	0	0	19,234
Administration	607,387	0	41,115	648,502
Fiscal	207,802	7,070	12,436	227,308
Business	8,152	0	0	8,152
Operation and Maintenance of Plant	695,534	0	69,946	765,480
Pupil Transportation	595,911	0	15,435	611,346
Central	17,141	0	8,193	25,334
Operation of Non-Instructional Services	10,000	0	217,210	227,210
Extracurricular Activities	158,313	0	90,935	249,248
<i>Debt Service:</i>				
Principal Retirement	59,490	240,000	0	299,490
Interest and Fiscal Charges	5,102	195,150	0	200,252
<i>Total Expenditures</i>	<u>6,860,858</u>	<u>442,220</u>	<u>807,428</u>	<u>8,110,506</u>
<i>Net Change in Fund Balances</i>	(99,401)	17,475	(18,485)	(100,411)
<i>Fund Balances at Beginning of Year - As Restated (See Note 3)</i>	<u>609,710</u>	<u>658,503</u>	<u>230,430</u>	<u>1,498,643</u>
<i>Fund Balances at End of Year</i>	<u><u>\$510,309</u></u>	<u><u>\$675,978</u></u>	<u><u>\$211,945</u></u>	<u><u>\$1,398,232</u></u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds	(\$100,411)		
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>			
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 depreciation exceeded capital outlays in the current period.	(311,800)		
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(64,360)		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of: Property taxes	284,914		
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	299,490		
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	934		
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: Compensated absences Intergovernmental payables	<table style="margin-left: auto; margin-right: 0;"> <tr> <td style="text-align: right;">(6,515)</td> </tr> <tr> <td style="text-align: right;"><u>(99,557)</u></td> </tr> </table>	(6,515)	<u>(99,557)</u>
(6,515)			
<u>(99,557)</u>			
Total expenditures not reported in the funds	(106,072)		
An internal service fund is used by management to charge the costs of insurance to individual funds. The net revenue of the internal service fund is reported as governmental activities.	<u>154,635</u>		
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$157,330</u></u>		

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2004*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Property Taxes	\$2,515,944	\$2,382,777	\$2,383,244	\$467
Intergovernmental	3,965,561	3,756,508	3,757,235	727
Interest	18,252	17,355	17,355	0
Tuition and Fees	507,541	481,029	481,122	93
Miscellaneous	12,636	11,703	11,703	0
<i>Total Revenues</i>	<u>7,019,934</u>	<u>6,649,372</u>	<u>6,650,659</u>	<u>1,287</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	3,231,179	3,056,727	3,008,325	48,402
Special	717,517	749,846	668,030	81,816
Vocational	199,979	202,505	186,186	16,319
<i>Support Services:</i>				
Pupils	342,003	329,422	318,415	11,007
Instructional Staff	347,909	392,655	323,914	68,741
Board of Education	20,659	19,429	19,234	195
Administration	716,524	707,917	667,105	40,812
Fiscal	222,542	225,525	207,193	18,332
Business	8,756	10,817	8,152	2,665
Operation and Maintenance of Plant	847,547	867,963	789,092	78,871
Pupil Transportation	640,903	682,987	596,700	86,287
Central	18,728	23,300	17,436	5,864
Operation of Non-Instructional Services	10,741	10,000	10,000	0
Extracurricular Activities	167,660	196,022	156,096	39,926
<i>Total Expenditures</i>	<u>7,492,647</u>	<u>7,475,115</u>	<u>6,975,878</u>	<u>499,237</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(472,713)	(825,743)	(325,219)	500,524
<i>Fund Balance at Beginning of Year</i>	1,085,123	1,085,123	1,085,123	0
Prior Year Encumbrances Appropriated	128,925	128,925	128,925	0
<i>Fund Balance at End of Year</i>	<u>\$741,335</u>	<u>\$388,305</u>	<u>\$888,829</u>	<u>\$500,524</u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Fund

June 30, 2004

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$34,815
Cash and Cash Equivalents with Fiscal Agent	<u>381,623</u>
<i>Total Assets</i>	<u>416,438</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Claims Payable	<u>68</u>
<i>Total Current Liabilities</i>	<u>68</u>
<u>Net Assets:</u>	
Unrestricted	<u><u>\$416,370</u></u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

*Statement of Revenues,
Expenses and Change in Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2004*

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Operating Revenues:</u>	
Charges for Services	<u>\$626,395</u>
<u>Operating Expenses:</u>	
Purchased Services	307
Claims	<u>471,453</u>
<i>Total Operating Expenses</i>	<u>471,760</u>
<i>Change in Net Assets</i>	154,635
<i>Net Assets at Beginning of Year</i>	<u>261,735</u>
<i>Net Assets at End of Year</i>	<u><u>\$416,370</u></u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Services Provided	\$626,395
Cash Payments for Goods and Services	(307)
Cash Payments for Claims	<u>(496,491)</u>
<i>Net Cash from Operating Activities</i>	<u>129,597</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	129,597
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>286,841</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$416,438</u></u>
<u>Reconciliation of Operating Income (Loss)</u>	
<u>to Net Cash from Operating Activities:</u>	
Operating Income (Loss)	\$154,635
<u>Adjustments to Reconcile Operating Income (Loss)</u>	
<u>to Net Cash from Operating Activities:</u>	
<i>Increase (Decrease) in Liabilities:</i>	
Accounts Payable	(3,454)
Claims Payable	<u>(21,584)</u>
Total Adjustments	<u>(25,038)</u>
<i>Net Cash from Operating Activities</i>	<u><u>\$129,597</u></u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2004

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$32,433</u>
<u>Liabilities:</u>	
Accounts Payable	250
Due to Students	<u>32,183</u>
<i>Total Liabilities</i>	<u><u>\$32,433</u></u>

See accompanying notes to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

Berne Union Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established through the consolidation of existing land areas and school districts. It is staffed by 32 non-certificated employees, 64 certificated full-time teaching personnel and 5 administrative employees who provide services to 1,012 students and other community members.

Reporting Entity

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

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

The District is associated with two jointly governed organizations: the Metropolitan Education Council (MEC) and the South Central Ohio Insurance Consortium (SCOIC). The District is also associated with one insurance purchasing pool: Ohio School Boards Association Worker's Compensation Group Rating Program. These organizations are presented in Notes 18 and 19 to the basic financial statements.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Basis of Presentation

The District's basic financial statement consists 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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, grants and contributions 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 District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The funds of the District fall within three categories: governmental, proprietary and fiduciary.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Governmental Funds

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

The following are the District's major governmental funds:

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

Bond Retirement Fund- This fund is used to account for financial resources accumulated for the payment of general long-term debt principal, interest and related costs.

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

Proprietary Fund

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides health and dental benefits to employees.

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary fund is an agency fund which is used to account for student managed activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fund Financial Statements

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

D. Basis of Accounting

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

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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the 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 (See Note 7). 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 year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a 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 to be both measurable and available at the fiscal year-end: property taxes available for advance, grants and interest.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Deferred Revenue

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

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

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

Expenses/Expenditures

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

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

E. Cash and Cash Equivalents

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

During the fiscal year 2004, the District's investments were limited to repurchase agreements and the State Treasury Asset Reserve of Ohio (STAROhio). Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. Non-participating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investments the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$17,355, which includes \$6,640 assigned from other District funds.

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

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used, consumed or sold.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption, and purchased food and donated food held for resale. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed, used or sold.

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 the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by statute to be set-aside by the District to create a reserve for budget stabilization. See note 16 for additional information regarding set-asides.

I. Capital Assets

General capital assets are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributed to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The 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 District has identified as probable of receiving payments 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 District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 15 years of service with the District.

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

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

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Liabilities

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences, special termination of benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Long-term bonds and capital leases are recognized as a liability on the fund financial statements when due.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for set-asides represents money set-aside by statute for budget stabilization, which protects against cyclical changes in revenues and expenditures.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

O. Interfund Transactions

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

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. 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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

Q. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

Changes in Accounting Principles

For fiscal year 2004, the 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," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statement Nos. 37 and 38, and GASB Interpretation No. 6.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES -
(Continued)

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

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

Restatement of Fund Balances

The restatements for a fund reclassification and GASB Statement No. 34 had the following effects on fund balances of the major and nonmajor funds of the District as they were previously reported.

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$609,710	\$658,503	\$189,442	\$1,457,655
Fund Reclassification	0	0	40,988	40,988
Adjusted Fund Balances, June 30, 2003	<u>\$609,710</u>	<u>\$658,503</u>	<u>\$230,430</u>	1,498,643
<i>GASB 34 Adjustments:</i>				
Property Taxes Receivable				148,275
Capital Assets				8,368,603
Accrued Interest Payable				(14,833)
Intergovernmental Payable				(76,780)
<i>Long-Term Obligations:</i>				
Compensated Absences Payable				(341,575)
Capital Lease Payable				(121,478)
General Obligation Bonds Payable				(3,810,000)
Internal Service Fund				<u>261,735</u>
Governmental Activities Net Assets, June 30, 2003				<u><u>\$5,912,590</u></u>

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 4 - ACCOUNTABILITY

Accountability

The following fund had a deficit fund balance earnings as of June 30, 2004:

	<u>Deficit Fund Balance</u>
<i>Nonmajor Special Revenue Fund:</i>	
IDEA	\$3,642

The deficit in this fund is the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in this fund and provides operating transfers when cash is required, not when accruals occur. This deficit does not exist on the cash basis.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described earlier is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and modified accrual GAAP basis are that:

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.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$99,401)
<i>Adjustments:</i>	
Revenue Accruals	(110,798)
Expenditure Accruals	(184,749)
Encumbrances	69,729
Budget Basis	<u><u>(\$325,219)</u></u>

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim deposits are deposits of interim moneys. Interim moneys are those moneys 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 accounts including passbook accounts.

Protection of the 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 money deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily, and that 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) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 District, and must be purchased with the expectation that it will be held to maturity. 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.

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

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$303,299 and the bank balance was \$441,275. Of the bank balance, \$100,000 was covered by federal depository insurance; and \$341,275 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The District's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the 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 District's name. The District's investment in STAROhio, an investment pool operated by the Ohio State Treasurer, is an uncategorized investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$119,720	\$119,720	\$119,720
STAROhio	0	1,875,207	1,875,207
Totals	<u>\$119,720</u>	<u>\$1,994,927</u>	<u>\$1,994,927</u>

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

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 classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,298,226	\$0
<i>Investments:</i>		
Repurchase Agreements	(119,720)	119,720
STAROhio	(1,875,207)	1,875,207
GASB Statement No. 3	<u>\$303,299</u>	<u>\$1,994,927</u>

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value.

Real property taxes are paid by taxpayers annually or semi-annually. If paid annually, payment is due December 31, unless extended; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20, unless extended. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Fairfield and Hocking Counties. The County Auditors periodically advances to the 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.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 7 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable represents the June 2004 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2004. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2004 was \$227,847 and is recognized as revenue. Of this total amount, \$184,246 was available to the General Fund, \$39,989 was available to the Bond Retirement Fund and \$3,612 was available to the Permanent Improvement Nonmajor Capital Projects Fund.

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

	2003 Second-Half Collections		2004 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$72,103,750	75.43%	\$73,694,890	75.42%
Public Utility Personal	19,793,390	20.70%	21,159,192	21.37%
Tangible Personal Property	3,700,351	3.87%	3,135,316	3.21%
Total Assessed Value	<u>\$95,597,491</u>	<u>100.00%</u>	<u>\$97,989,398</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$48.80		\$48.80	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004 consisted of property taxes, accounts (student fees), interfund, and intergovernmental grants. 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.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:	
<u>Nonmajor Special Revenue Fund:</u>	
Food Service	\$9,780

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 9 - CAPITAL ASSETS

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

<u>Asset Category</u>	<u>Restated Balance at July 1, 2003</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at June 30, 2004</u>
<i>Nondepreciable Capital Assets:</i>				
Land	\$410,820	\$0	\$0	\$410,820
<i>Depreciable Capital Assets:</i>				
Land Improvements	540,949	0	0	540,949
Buildings and Improvements	9,751,526	25,051	0	9,776,577
Furniture, Fixtures and Equipment	334,577	43,018	(30,922)	346,673
Vehicles	702,960	0	(76,090)	626,870
Textbooks	342,869	0	0	342,869
Total Depreciable Capital Assets	<u>11,672,881</u>	<u>68,069</u>	<u>(107,012)</u>	<u>11,633,938</u>
Total Capital Assets	<u>12,083,701</u>	<u>68,069</u>	<u>(107,012)</u>	<u>12,044,758</u>
<i>Accumulated Depreciation:</i>				
Land Improvements	(180,024)	(25,568)	0	(205,592)
Buildings and Improvements	(2,696,707)	(228,753)	0	(2,925,460)
Furniture, Fixtures and Equipment	(165,891)	(18,329)	7,628	(176,592)
Vehicles	(429,744)	(50,074)	35,024	(444,794)
Textbooks	(242,732)	(57,145)	0	(299,877)
Total Accumulated Depreciation	<u>(3,715,098)</u>	<u>(379,869)</u>	<u>42,652</u>	<u>(4,052,315)</u>
Total Net Capital Assets	<u><u>\$8,368,603</u></u>	<u><u>(\$311,800)</u></u>	<u><u>(\$64,360)</u></u>	<u><u>\$7,992,443</u></u>

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	\$281,879
Vocational	351
<i>Support Services:</i>	
Instructional Staff	35,299
Administration	1,000
Operation and Maintenance of Plant	1,229
Pupil Transportation	51,482
Central	539
Operation of Non-Instructional Services	5,635
Extracurricular Activities	2,455
	<hr/>
Total Depreciation Expense	<u><u>\$379,869</u></u>

NOTE 10 - RISK MANAGEMENT

The 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 District contracted with various commercial carriers for professional and general liability insurance, fleet insurance and property insurance. Coverages provided are as follows:

Building/Contents and Boiler/Machinery	
Building/Contents - replacement cost (100% co-insurance)	\$26,751,500
Automobile Liability (\$500 deductible for collision and \$250 for comprehensive)	3,000,000
General Liability:	
Per Occurrence	1,000,000
Aggregate Limit	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. The only significant changes in coverage from last year were due to increases in property insurance and fleet insurance.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 10 - RISK MANAGEMENT - (Continued)

For fiscal year 2004, the District participated in the Ohio School Boards Association Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its worker's compensation premium to the State based on the rate for the Plan 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 Plan. 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

The District was self funded with the South Central Ohio Insurance Consortium effective January 1, 1996.

The District joined four other school districts January 1, 1996, to form a regional council of governments in accordance with Ohio Revised Code Chapter 167 and entered into an Agreement Establishing the South Central Ohio Insurance Consortium for the purpose of carrying out a joint self-insurance program pursuant to Section 9.833 of the Ohio Revised Code, in an effort to minimize risk exposure and control claims and premium costs. EV Benefits is the third party administrator for the consortium, with Safeco Life Insurance Company as the excess loss carrier. The individual excess loss coverage is \$40,000 individual deductible per person with a \$2,000,000 maximum lifetime reimbursement per person.

The South Central Ohio Insurance Consortium was established to accumulate balances sufficient to self-insure basic medical and prescription drug coverage and permit excess umbrella coverage for claims over a predetermined level. The Board's share and the employees' share of premium contributions are determined by the negotiated agreement for certificated employees and by Board action for administrators and classified employees.

Premiums are paid to the South Central Ohio Insurance Consortium Fund and the Self Insurance Fund of the District from the Internal Service Fund. The cash balance with the fiscal agent at June 30, 2004, was \$381,623. Claims payments are made on an as-incurred basis by the third party administrator, with the balance of contributions remaining with the Fiscal Agent of the Consortium. Liabilities at June 30, 2004, are reported at their present value of \$68.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 10 - RISK MANAGEMENT - (Continued)

The claims liability of \$68 reported at June 30, 2004 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2003	\$11,459	\$277,376	\$267,183	\$21,652
2004	21,652	474,907	496,491	68

NOTE 11 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute, 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 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of the annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$111,756, \$148,068, and \$129,420, respectively; 55.11 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$50,169 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

State Teachers Retirement System

The 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 provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$484,908, \$423,360, and \$414,948, respectively; 85.22 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$71,649 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, four members of the Board of Education have elected Social Security.

BERNE UNION LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of 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 Stabilization Fund. For the District, this amount equaled \$37,301 during fiscal year 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$2.8 billion at June 30, 2003 (the latest information available.) For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivorship benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. 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. 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 had net assets available for payment of health care benefits of \$300.8 million. The number of participants currently receiving health care benefits is approximately 62,000. For the District, the amount to fund health care benefits, including the surcharge, equaled \$79,682 during the 2004 fiscal year.

NOTE 13 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 13 - EMPLOYEE BENEFITS - (Continued)

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 235 days for aides and all other classified employees and for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 55 days for all employees.

NOTE 14 - LONG-TERM LIABILITIES

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

	Issue Date	Interest Rate	Principal Outstanding at July 1, 2003	Additions	Deductions	Principal Outstanding at June 30, 2004	Amount Due In One Year
<i>Governmental Activities:</i>							
General Obligation Bonds Payable	1993	4.90%	\$3,810,000	\$0	\$240,000	\$3,570,000	\$255,000
Compensated Absences Payable			357,660	168,706	158,077	368,289	43,255
Capital Lease Payable			121,478	0	59,490	61,988	61,988
Total Governmental Activities Long-Term Obligations			<u>\$4,289,138</u>	<u>\$168,706</u>	<u>\$457,567</u>	<u>\$4,000,277</u>	<u>\$360,243</u>

The \$3,810,000 of outstanding general obligation bonds relate to a project for which bonds were issued in 1993 for the purpose of constructing and reconstructing the District's K-12 building and for improving the site. The bonds mature December 2014, and are in full compliance with the general laws of the State of Ohio, particularly Sections 133.01 to 133.48, inclusive, of the Ohio Revised Code and Section 133.09 thereof. These bonds will be paid from the Bond Retirement Fund using property tax revenues.

On November 8, 1994, the voters of the District passed a .5 mill levy to qualify for State Building Assistance Funds. The District received a \$6,120,000 loan from the State of Ohio for the construction and reconstruction of classroom facilities.

Pursuant to changes that became effective on September 14, 2000, Section 3318.05 of the Ohio Revised Code was amended eliminating the requirement that certain school districts receiving state classroom facilities assistance repay one-half of the required twenty-three year one-half mill levy. From that date forward any school district that had previously been required to make repayment has been directed to cease making the payments to the Ohio School Facilities Commission and to instead deposit one hundred percent of the proceeds in the Classroom Facilities Maintenance Fund (Fund 034) designated by the Auditor of State.

Compensated absences will be paid from the fund from which the employee is paid. The capital lease payable will be paid from the Permanent Improvement Nonmajor Capital Projects Fund.

The District's overall legal debt margin was \$13,438,556 with an unvoted debt margin of \$157,249 at June 30, 2004.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 14 - LONG-TERM LIABILITIES - (Continued)

The annual requirements to retire the general obligation bonds outstanding at June 30, 2004 are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds
2005	\$438,142
2006	445,020
2007	445,750
2008	450,295
2009	453,573
2010-2014	2,261,002
2015	169,538
Total Debt Payments	4,663,320
Less: Amount Representing Interest	1,093,320
Total Principal	<u>\$3,570,000</u>

NOTE 15 - CAPITAL LEASE - LESSEE DISCLOSURE

The \$61,988 of outstanding capital lease payable relate to the lease/purchase of four school buses during fiscal year 2003. The lease, dated December 12, 2002, in the amount of \$186,070 will be paid over three fiscal years. The final payment will be made in December, 2004. The leased buses have been capitalized in the amount of \$186,700 in the capital assets for governmental activities.

The following is a schedule of the future minimum lease payment required under the capital lease and the present value of the minimum lease payment as of June 30, 2004:

Fiscal Year Ending June 30,	Capital Lease Payments
2005	\$64,591
Total Future Minimum Lease Payment	64,591
Amount Representing Interest	(2,603)
Present Value of Future Minimum Lease Payment	<u>\$61,988</u>

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 16 - STATUTORY SET-ASIDES

The District is required by State statute to annually set-aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Previously, the District was also required to set aside money for budget stabilization. Senate Bill 345 eliminated the Budget Stabilization Reserve except for amounts related to unspent Bureau of Worker's Compensation refunds. The Bill requires the Board of Education to designate its intended use of the Reserve.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition	Budget Stabilization	Total
Set-Aside Reserve Balance as of June 30, 2003	\$26,156	\$0	\$100,000	\$126,156
Current Year Set-Aside Requirement	137,186	137,186	0	274,372
Qualifying Disbursements	(194,140)	(243,721)	0	(437,861)
Totals	(\$30,798)	(\$106,535)	\$100,000	(\$37,333)
Set-Aside Balance Carried Forward to Future Fiscal Years	\$0	\$0	\$100,000	\$100,000
Set-Aside Reserve Balance as of June 30, 2004	\$0	\$0	\$100,000	\$100,000

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital acquisition set-aside amounts below zero. Current year offsets and qualifying disbursements in excess of current year or accumulated set-aside requirements for textbooks may be used to reduce set-aside requirements in future years. Actual cash balances in excess of set-aside requirements for textbooks may be used to offset set-aside requirements of future years. Actual cash balances in excess of set-aside requirements for capital acquisitions may be used to offset set-aside requirements of future years if monies are obtained from a permanent improvement levy.

NOTE 17 - OPERATING LEASES

The District leases copiers under operating leases expiring in various years. Minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year as of June 30, 2004, for each of the next five years and in the aggregate are:

	Amount
FY 2005	\$25,912
FY 2006	27,864
FY 2007	27,864
FY 2008	25,557
FY 2009	10,459
Total	\$117,656

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Education Council (MEC)

Metropolitan Education Council is a jointly governed organization created as a regional council of governments pursuant to State statutes. 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 services to the District.

South Central Ohio Insurance Consortium (SCOIC)

South Central Ohio Insurance Consortium is a regional council of governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The District does not have an ongoing financial interest in or financial responsibility for the SCOIC other than claims paid on behalf of the District for District employees.

NOTE 19 - INSURANCE PURCHASING POOL

Ohio School Boards Association Worker's Compensation Group Rating Program

The District participates in the Ohio School Boards Association Worker's Compensation Group Rating Program (GRP), an insurance purchasing pool with Sheakley Uniservice, Inc. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 20 - CONTINGENCIES

Grants

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

NOTE 21 - SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

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.

BERNE UNION LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 22 - SUBSEQUENT EVENTS

A budget reduction plan was approved by the Board of Education on March 8, 2005, effective for fiscal year 2006. This included the following cost saving measures for the 2005-06 school year:

Certified salaries (elimination of three positions)	\$162,469
Classified salaries (elimination of three full-time positions, one part-time position, and reduction in hours for one classified position)	130,498
Elimination of specific supplemental contracts	26,000
Realignment of federal grants	49,000
Reduction of purchases for supplies and materials (including technology budget)	65,000
Reduction of purchased service agreements	50,000
Elimination of summer school	9,108
Incorporate an extracurricular activity fee	10,000
Institute Booster Club fees for athletics/band trips	13,000
Implement all-day every other day kindergarten	16,886

The Board of Education implemented other cost saving measures for the 2005-06 school year including: closing the building at 4:00 p.m. (except for Board approved activities), establish a computer supply fee of \$10 per student (grades K-12 - approximate savings \$10,000), limit professional development opportunities to those paid for by grant monies or requested by administration (approximate savings of \$6,000). All staff members, including certified, classified and administration, will not receive a cost-of-living increase and will only receive step increases (if applicable), for an approximate savings of \$140,000.

The total cost savings for the budget reduction plan is approximately \$687,000.

A transportation analysis is still pending from the Ohio Department of Education. The Board of Education may establish further reductions based upon the final recommendations from the Ohio Department of Education.

In addition to the above plan, the District has placed a one-percent school district income tax levy on the May 2005 election ballot. If the levy does not pass, the Board of Education will further evaluate financial conditions and may institute further reductions.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Berne Union Local School District
Sugar Grove, Ohio

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information for Berne Union Local School District as of and for the year ended June 30, 2004, and have issued our report thereon dated March 8, 2005, and have issued our report thereon dated March 8, 2005, wherein we noted the District adopted Governmental Accounting Standards Board (GASB) Statement No. 34 No. 37, No. 38, No. 41 and GASB Interpretation No. 6. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Berne Union Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berne Union Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the board of education, management and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Jones, Cochenour & Co.
March 8, 2005

**BERNE UNION LOCAL SCHOOL DISTRICT
STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

<u>Finding Number/Brief Description</u>	<u>Status</u>	<u>Response</u>
<u>Citations/Reportable Conditions:</u>		
2003-0206-001	Corrected	N/A

CONCLUSION STATEMENT

The draft audit report was furnished to the District. The District waived a formal post audit conference in a verbal communication on March 8, 2005.



**Auditor of State
Betty Montgomery**

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800-282-0370
Facsimile 614-466-4490

**BERNE UNION LOCAL SCHOOL DISTRICT
FAIRFIELD 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
MAY 5, 2005**