



**Auditor of State
Betty Montgomery**

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities...	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund	17
Statement of Net Assets – Proprietary Fund	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund	19
Statement of Cash Flows – Proprietary Fund.....	20
Statement of Fiduciary Net Assets – Fiduciary Funds.....	21
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	22
Notes to the Basic Financial Statements	23
Schedule of Federal Awards Receipts and Expenditures.....	51
Notes to the Schedule of Federal Awards Receipts and Expenditures	52
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	53
Independent Accountants' Report on Compliance with Requirements Applicable to the Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	55
Schedule of Findings - <i>OMB Circular A-133 Section .505</i>	57
Schedule of Prior Audit Findings - <i>OMB Circular A-133 Section .315 (b)</i>	59

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Union Local School District
Belmont County
P.O. Box 300
Morristown, Ohio 43759

To the Board of Education:

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

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

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 Union Local School District, Belmont County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

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

Betty Montgomery
Auditor of State

May 25, 2005

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

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- General revenues accounted for \$10,357,532 in revenue or 84% of all revenues. Program specific revenues in the form of charges for services and sales, and grants and contributions accounted for \$1,995,701 or 16% of total revenues of \$12,353,233.
- Total program expenses were \$12,678,085.
- In total, net assets decreased \$324,852.
- Outstanding bonded debt decreased from \$3,065,000 to \$2,975,000 during 2004.

Using this Annual Report

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

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Union Local School District, the General Fund and the Debt Service Fund are the only major funds.

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

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

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and non instructional services, ie, food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 25. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Debt Service Fund.

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

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

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

Recall the Statement of Net Assets provides the perspective of the School District as a whole.

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

(Table 1)
Net Assets

Assets	Governmental Activities	
	2004	2003
Current and Other Assets	\$3,702,553	\$3,938,820
Capital Assets	14,784,281	15,259,710
Total Assets	18,486,834	19,198,530
Liabilities		
Long-Term Liabilities	3,806,999	3,928,227
Other Liabilities	3,584,778	3,850,394
Total Liabilities	7,391,777	7,778,621
Net Assets		
Invested in Capital		
Assets, Net of Debt	11,809,281	12,194,710
Restricted	887,312	785,865
Unrestricted (Deficit)	(1,601,536)	(1,560,666)
Total Net Assets	\$11,095,057	\$11,419,909

Total net assets decreased by \$324,852. A decrease of \$475,429 in total capital assets reflects depreciation exceeding additional purchases. Total liabilities decreased by \$386,844, and this was primarily a result of decreased deferred revenue and long-term liabilities.

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

Table 2 shows the changes in net assets for fiscal year 2004. This table presents two fiscal years in side-by-side comparisons. This will enable the reader to draw further conclusion about the School District's financial status and possibly project future problems.

(Table 2)
Governmental Activities

	Governmental Activities	
	2004	2003
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 775,649	\$ 365,584
Operating Grants	1,220,052	1,726,518
Capital Grants	0	346,224
<i>General Revenue:</i>		
Property Taxes	2,337,995	2,194,863
Grants and Entitlements	7,906,141	7,146,904
Other	113,396	51,322
Total Revenues	12,353,233	11,831,415
Program Expenses		
Instruction	7,442,201	7,385,775
Support Services:		
Pupils and Instructional Staff	1,000,010	1,017,076
Board of Education, Administration and Fiscal	1,032,409	983,711
Operation and Maintenance of Plant	1,425,605	1,326,127
Pupil Transportation	660,717	692,778
Central	18,790	13,217
Operation of Non-Instructional	539,748	548,862
Extracurricular Activities	378,275	305,701
Interest and Fiscal Charges	180,330	184,704
Total Expenses	12,678,085	12,457,951
Change in Net Assets	\$ (324,852)	\$ (626,536)

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

Governmental Activities

Several revenue sources fund the School District's governmental activities with property taxes being the largest contributor. Property tax levies generated \$2.3 million in 2004. General revenues from grants and entitlements, such as the school foundation program, are also a large revenue generator. With the combination of taxes and intergovernmental revenues funding nearly 80% of expenses in governmental activities, the School District monitors both of these revenue sources very closely for fluctuations.

The Statement of Activities shows the cost of program services and the 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. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)
Governmental Activities

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 7,442,201	\$ 6,367,881	\$ 7,385,775	\$ 5,972,947
Support Services:				
Pupils and Instructional Staff	1,000,010	860,208	1,017,076	935,715
Board of Education, Administration				
Fiscal and Central	1,051,199	985,824	996,928	981,405
Operation and Maintenance of Plant	1,425,605	1,059,587	1,326,127	1,051,377
Pupil Transportation	660,717	614,639	692,778	628,551
Operation of Non-Instructional Services	539,748	352,341	548,862	85,289
Extracurricular Activities	378,275	261,574	305,701	179,637
Interest and Fiscal Charges	180,330	180,330	184,704	184,704
Total	\$ 12,678,085	\$ 10,682,384	\$ 12,457,951	\$ 10,019,625

Instruction and student support services comprise 66% of governmental program expenses. Interest, fiscal and administration charges were 10%. Interest expense was attributable to the outstanding bonds, fiscal expenses include payments to the County Auditor for administrative fees and other administrative services provided by the School District. Pupil transportation and the operation and maintenance of facilities accounts for 16% of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is by far the primary support for Union Local School District students.

General Fund Budgeting Highlights

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

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

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

For the General Fund, budget basis revenue was \$10,372,002, over the original budget estimates of \$10,365,460. Of this \$6,542 increase, most was attributable to an increase in tax revenue.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$14,784,281 invested in land, buildings, and vehicles. See note 8 for additional details. Table 4 shows fiscal year 2004 balances compared with 2003.

(Table 4)
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2004	2003
Land	\$ 1,842,760	\$ 1,842,760
Buildings and Improvements	12,664,922	13,192,627
Vehicles	276,599	224,323
Totals	\$ 14,784,281	\$ 15,259,710

The \$475,429 decrease in capital assets was attributable to depreciation expense exceeding additional purchases.

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks (see note 17). For fiscal year 2004, this amounted to \$208,763 for each set aside. The School District had qualifying disbursements or offsets exceeding these requirements for both set asides.

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

Debt

At June 30, 2004, the School District had \$2,975,000 in bonds outstanding with \$105,000 due within one year. See note 13 for additional details. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	Governmental Activities 2004	Governmental Activities 2003
1997 General Obligation Bond	<u>\$ 2,975,000</u>	<u>\$ 3,065,000</u>

Current Issues

The Union Local School District is currently experiencing financial difficulty. As the preceding information shows, the School District relies heavily on state funding as well as its local property taxpayers. Based on the current financial situation, the School District is currently looking at several cost cutting measures.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Shawn Miller, Treasurer/CFO at Union Local School District, P.O. Box 300, Morristown, OH 43759.

This page intentionally left blank.

Union Local School District

Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 963,032
Cash and Cash Equivalents with Fiscal Agents	119,278
Receivables:	
Taxes	2,478,686
Accounts	4,877
Intergovernmental	26,061
Prepaid Items	25,372
Inventory Held For Resale	11,183
Materials and Supplies Inventory	74,064
Nondepreciable Capital Assets	1,842,760
Depreciable Capital Assets (Net)	<u>12,941,521</u>
<i>Total Assets</i>	<u>18,486,834</u>
Liabilities	
Accounts Payable	34,872
Accrued Wages and Benefits	1,128,153
Matured Compensated Absences Payable	36,274
Intergovernmental Payable	298,043
Deferred Revenue	2,068,153
Accrued Interest Payable	15,356
Claims Payable	3,927
Long Term Liabilities:	
Due Within One Year	164,605
Due in More Than One Year	<u>3,642,394</u>
<i>Total Liabilities</i>	<u>7,391,777</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,809,281
Restricted for:	
Capital Projects	251,992
Debt Service	540,917
Other Purposes	94,403
Unrestricted	<u>(1,601,536)</u>
<i>Total Net Assets</i>	<u>\$ 11,095,057</u>

See accompanying notes to the basic financial statements.

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

	Program Revenues			Net (Expense) and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 5,676,844	\$ 230,848	\$ 373,726	\$ (5,072,270)
Special	1,456,545	42,649	413,477	(1,000,419)
Vocational	288,535	12,684	0	(275,851)
Other	20,277	936	0	(19,341)
Support Services:				
Pupils	449,892	14,065	95,354	(340,473)
Instructional Staff	550,118	24,578	5,805	(519,735)
Board of Education	47,590	2,201	0	(45,389)
Administration	705,718	31,460	9,175	(665,083)
Fiscal	279,101	12,593	703	(265,805)
Operation and Maintenance of Plant	1,425,605	55,711	310,307	(1,059,587)
Pupil Transportation	660,717	43,348	2,730	(614,639)
Central	18,790	468	8,775	(9,547)
Operation of Non-instructional Services	539,748	187,407	0	(352,341)
Extracurricular Activities	378,275	116,701	0	(261,574)
Interest and Fiscal Charges	180,330	0	0	(180,330)
Total Governmental Activities	\$ 12,678,085	\$ 775,649	\$ 1,220,052	\$ (10,682,384)

General Revenues

Property Taxes Levied for:

General Purposes	2,005,824
Debt Service	290,209
Capital Outlay	41,962

Grants and Entitlements not Restricted to Specific Programs	7,906,141
Gifts and Donations	66,156
Investment Earnings	10,243
Miscellaneous	26,708
Gain on Sale of Capital Assets	10,289

Total General Revenues 10,357,532

Change in Net Assets (324,852)

Net Assets Beginning of Year 11,419,909

Net Assets End of Year \$ 11,095,057

See accompanying notes to the basic financial statements.

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

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 14,354	\$ 506,311	\$ 387,834	\$ 908,499
Cash and Cash Equivalents:				
Restricted Cash	54,533	0	0	54,533
Receivables:				
Taxes	2,137,572	301,658	39,456	2,478,686
Accounts	4,188	0	689	4,877
Interfund	23,964	0	0	23,964
Intergovernmental	98	0	25,963	26,061
Prepaid Items	25,372	0	0	25,372
Inventory Held For Resale	0	0	11,183	11,183
Materials and Supplies Inventory	72,961	0	1,103	74,064
Total Assets	2,333,042	807,969	466,228	3,607,239
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	24,003	0	10,869	34,872
Accrued Wages and Benefits	1,005,701	0	122,452	1,128,153
Matured Compensated Absences Payable	36,274	0	0	36,274
Interfund Payable	0	0	23,964	23,964
Intergovernmental Payable	183,938	0	23,840	207,778
Deferred Revenue	2,016,510	284,574	37,221	2,338,305
Total Liabilities	3,266,426	284,574	218,346	3,769,346
Fund Balances				
Fund Balance:				
Reserved for Encumbrances	31,088	0	48,309	79,397
Reserved for Bus Purchase Allowance	54,533	0	0	54,533
Reserved for Inventory	72,961	0	12,286	85,247
Reserved for Property Taxes	121,062	17,084	2,235	140,381
Undesignated, Unreserved Reported in:				
General Fund	(1,213,028)	0	0	(1,213,028)
Special Revenue Funds	0	0	(82,692)	(82,692)
Debt Service Fund	0	506,311	0	506,311
Capital Projects Funds	0	0	267,744	267,744
Total Fund Balances	(933,384)	523,395	247,882	(162,107)
Total Liabilities and Fund Balances	\$ 2,333,042	\$ 807,969	\$ 466,228	\$ 3,607,239

See accompanying notes to the basic financial statements.

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

Total Governmental Fund Balances	\$	(162,107)
 <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		14,784,281
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. Delinquent Property Taxes		270,152
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		115,351
Intergovernmental payables include contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(90,265)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(15,356)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds:		
Compensated Absences	(831,999)	
Bonds Payable	(2,975,000)	(3,806,999)
Net Assets of Governmental Activities	\$	11,095,057

See accompanying notes to the basic financial statements.

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

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenue:				
Taxes	\$ 1,980,812	\$ 292,031	\$ 42,604	\$ 2,315,447
Intergovernmental	7,861,989	40,745	1,491,194	9,393,928
Investment Income	5,755	0	4,488	10,243
Tuition and Fees	467,180	0	0	467,180
Extracurricular Activities	0	0	120,087	120,087
Rentals	975	0	0	975
Charges for Services	0	0	187,407	187,407
Contributions and Donations	44,114	0	22,042	66,156
Miscellaneous	14,926	0	11,782	26,708
<i>Total Revenues</i>	<u>10,375,751</u>	<u>332,776</u>	<u>1,879,604</u>	<u>12,588,131</u>
Expenditure:				
Current:				
Instruction:				
Regular	5,189,831	0	340,986	5,530,817
Special	917,025	0	491,060	1,408,085
Vocational	271,440	0	0	271,440
Other	20,277	0	0	20,277
Support Services:				
Pupils	345,578	0	141,900	487,478
Instructional Staff	527,527	0	8,087	535,614
Board of Education	48,535	0	0	48,535
Administration	660,096	0	14,945	675,041
Fiscal	264,790	7,147	2,105	274,042
Operation and Maintenance of Plant	1,139,356	0	282,690	1,422,046
Pupil Transportation	619,827	0	48,466	668,293
Central	10,000	0	8,734	18,734
Operation of Non-instructional Services	0	0	504,796	504,796
Extracurricular Activities	178,502	0	114,817	293,319
Debt Service:				
Principal Retirement	0	90,000	0	90,000
Interest and Fiscal Charges	0	180,810	0	180,810
<i>Total Expenditures</i>	<u>10,192,784</u>	<u>277,957</u>	<u>1,958,586</u>	<u>12,429,327</u>
<i>Excess of Revenues Over/(Under) Expenditures</i>	182,967	54,819	(78,982)	158,804
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	10,289	0	0	10,289
Transfers In	0	0	191,232	191,232
Transfers Out	(191,232)	0	0	(191,232)
<i>Total Financing Sources (Uses)</i>	<u>(180,943)</u>	<u>0</u>	<u>191,232</u>	<u>10,289</u>
<i>Net Change in Fund Balance</i>	2,024	54,819	112,250	169,093
<i>Fund Balance (Deficit) Beginning of Year</i>	<u>(940,137)</u>	<u>468,576</u>	<u>134,775</u>	<u>(336,786)</u>
<i>Increase in Reserve for Inventory</i>	<u>4,729</u>	<u>0</u>	<u>857</u>	<u>5,586</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ (933,384)</u>	<u>\$ 523,395</u>	<u>\$ 247,882</u>	<u>\$ (162,107)</u>

See accompanying notes to the basic financial statements.

Union Local School District
Reconciliation of the 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	\$	169,093
--	----	---------

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

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Asset Additions	\$ 112,682	
Current Year Depreciation	<u>(588,111)</u>	(475,429)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds

Grants	(267,736)	
Delinquent Property Taxes	<u>22,549</u>	(245,187)

Repayment of general obligation bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

90,000

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due.

480

Some expenses 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.

Compensated Absences	101,801	
Pension Obligation	28,808	
Change in Inventory	<u>5,586</u>	136,195

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.

(4)

Change in Net Assets of Governmental Activities

\$ (324,852)

See accompanying notes to the basic financial statements.

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenue:				
Taxes	\$ 1,800,000	\$ 1,800,000	\$ 1,961,826	\$ 161,826
Intergovernmental	7,974,969	7,978,381	7,868,895	(109,486)
Investment Income	9,000	9,000	5,282	(3,718)
Tuition and Fees	504,231	507,231	465,787	(41,444)
Extracurricular Activities	0	0	0	0
Rentals	150	150	975	825
Charges for Services	0	0	0	0
Contributions and Donations	58,510	58,510	44,114	(14,396)
Miscellaneous	2,600	2,600	1,390	(1,210)
<i>Total Revenues</i>	<u>10,349,460</u>	<u>10,355,872</u>	<u>10,348,269</u>	<u>(7,603)</u>
Expenditures				
Current:				
Instruction:				
Regular	5,196,540	5,191,999	5,182,733	9,266
Special	910,432	935,635	935,638	(3)
Vocational	261,688	261,932	260,493	1,439
Other	16,000	20,300	20,277	23
Support Services				
Pupils	405,644	348,012	347,929	83
Instructional Staff	547,752	523,508	523,340	168
Board of Education	67,140	52,896	52,899	(3)
Administration	687,226	679,712	678,806	906
Fiscal	347,665	257,215	256,969	246
Business	0	0	0	0
Operation and Maintenance of Plant	1,169,560	1,150,789	1,155,464	(4,675)
Pupil Transportation	568,052	643,559	643,428	131
Central	10,000	10,000	10,000	0
Operation of Non-Instructional Services	0	0	0	0
Extracurricular Activities	145,888	165,597	165,531	66
Capital Outlay	0	0	0	0
Debt Service				
Principal Retirement	0	0	0	0
Interest and Fiscal Charges	0	0	0	0
<i>Total Expenditures</i>	<u>10,333,587</u>	<u>10,241,154</u>	<u>10,233,507</u>	<u>7,647</u>
<i>Excess of Revenues Over/(Under) Expenditures</i>	15,873	114,718	114,762	44
Other Financing Sources (Uses)				
Proceeds of Bonds	0	0	0	0
Inception of Capital Lease	0	0	0	0
Proceeds of Notes	0	0	0	0
Proceeds from Sale of Capital Assets	0	0	10,289	10,289
Refund of Prior Year Expenditures	16,000	16,000	13,444	(2,556)
Other Financing Sources	0	0	0	0
Refund of Prior Year Receipts	0	0	0	0
Other Financing Uses	0	0	0	0
Advances In	0	0	0	0
Advances Out	0	(23,964)	(23,964)	0
Operating Transfers In	0	0	0	0
Transfers Out	(4,000)	(84,207)	(84,207)	0
<i>Total Other Financing Sources (Uses)</i>	<u>12,000</u>	<u>(92,171)</u>	<u>(84,438)</u>	<u>7,733</u>
<i>Excess of Revenues and Other Financing Sources Over Net Change in Fund Balance</i>	27,873	22,547	30,324	7,777
<i>Fund Balance (Deficit) Beginning of Year</i>	(145,023)	(145,023)	(145,023)	0
Prior Year Encumbrances Appropriated	146,346	146,346	146,346	0
<i>Fund Balance End of Year</i>	<u>\$ 29,196</u>	<u>\$ 23,870</u>	<u>\$ 31,647</u>	<u>\$ 7,777</u>

See accompanying notes to the basic financial statements.

Union Local School District

Statement of Net Assets

Proprietary Fund

June 30, 2004

	Governmental Activities - Internal Service Fund
Assets	
Cash and Cash Equivalents with Fiscal Agents	\$ 119,278
Liabilities	
Claims Payable	3,927
Net Assets	
Unrestricted	\$ 115,351

See accompanying notes to the basic financial statements.

Union Local School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Operating Revenues	
Charges for services	<u>\$ 137,944</u>
Operating Expenses	
Fringe Benefits	1,072
Purchased Services	29,574
Claims	<u>108,370</u>
<i>Total Operating Expenses</i>	<u>139,016</u>
<i>Operating Loss</i>	<u>(1,072)</u>
Non-Operating Revenues	
Interest	<u>1,068</u>
<i>Change in Net Assets</i>	<u>(4)</u>
<i>Net Assets Beginning of Year</i>	<u>115,355</u>
<i>Net Assets End of Year</i>	<u><u>\$ 115,351</u></u>

See accompanying notes to the basic financial statements.

Union Local School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2004

	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 137,944
Cash Paid for Goods and Services	(29,574)
Cash Paid to Employees	(1,072)
Cash Paid for Claims	(114,051)
	(6,753)
<i>Net Cash Used For Operating Activities</i>	<i>(6,753)</i>
Cash Flows From Investing Activities	
Interest on Investments	1,068
	(5,685)
<i>Net Decrease in Cash and Cash Equivalents</i>	<i>(5,685)</i>
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>124,963</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$ 119,278</i>
Reconciliation of Operating Loss to Net Cash Used For Operating Activities	
Operating Loss	\$ (1,072)
Adjustments:	
Decrease in Claims Payable	(5,681)
	(6,753)
<i>Net Cash Used For Operating Activities</i>	<i>\$ (6,753)</i>

See accompanying notes to the basic financial statements.

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

	Private Purpose Trust	
	Mueller Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 15,259	\$ 27,748
Accounts Receivable	0	285
<i>Total Assets</i>	\$ 15,259	\$ 28,033
Liabilities		
Accounts Payable	\$ 0	\$ 550
Due to Students	0	27,483
<i>Total Liabilities</i>	0	\$ 28,033
Net Assets		
Held in Trust for Scholarships	15,259	
<i>Total Net Assets</i>	\$ 15,259	

See accompanying notes to the basic financial statements.

Union Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust Mueller Scholarship
Additions	
Gifts and Contributions	\$ 11,161
Deductions	
Scholarships Awarded	18,200
<i>Change in Net Assets</i>	(7,039)
<i>Net Assets Beginning of Year</i>	22,298
<i>Net Assets End of Year</i>	\$ 15,259

See accompanying notes to the basic financial statements.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

The Union Local School District (School District) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and/or federal guidelines. Average daily membership on, or as of October 1, 2003, was 1,558. The School District employs 127 certificated and 67 non-certificated employees.

The School District was established in 1952 through the consolidation of the Union Township, Smith Township, Belmont, Bethesda, Lafferty, and Holloway schools. In 1968, the new Union Local School District was formed when the Flushing School District joined the consolidation. The combined high school, Union Local High School, was built in 1958, with the first class graduating in 1960. In the fall of 1998, Union Local School District finished construction of a new high school. In the fall of 1999, construction of a new elementary school was complete, as well as the renovations to the old high school which was converted into the middle school. It is located in Belmont County, and includes all of the Villages of Morristown, Belmont, Centerville, Bethesda, and Flushing. The School District is the 357th largest in the State of Ohio (among 612 school districts) in terms of enrollment. Subsequent to the completion of the renovations to the high school building and new addition and construction of the new elementary school, the Flushing, Centerville, Belmont and Bethesda Elementary Buildings were turned over to the communities for one dollar. The School District currently operates three instructional buildings, one administrative building and one garage.

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to, or can otherwise access, the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provides financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes.

No separate governmental units meet the criteria for inclusion as a component unit.

The School District is involved with the Belmont-Harrison Vocational School, the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA), East Central Ohio Special Education Regional Resource Center (ECOSERRC), the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Ohio School Plan, and the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan which are defined as a jointly governed organizations, insurance purchasing pools, and a claims servicing pool. Additional information concerning these organizations is presented in Notes 15 and 16 to the basic financial statements.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
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 School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are shown below.

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

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

Fund Financial Statements

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

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: Governmental, Proprietary, and Fiduciary.

Governmental Funds

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

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term principal and interest.

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

Proprietary Fund Types

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The School District has no enterprise funds.

Internal Service Fund – The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's Internal Service Funds account for funds for the operation of the School District's self-insurance program for employee prescription drug and dental claims.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

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

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

The private purpose Trust Fund is reported using the economic resources measurement focus.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the 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 Non-Exchange Transactions

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

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

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

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 2005 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.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The School District has cash with a fiscal agent held separate from the School District's central bank account. This account is maintained by the School District's self-insurance third party administrator and is presented in the statement of net assets and the statement of fund net assets as "cash and cash equivalents with fiscal agents".

During fiscal year 2004, the School District has no investments.

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 \$5,755, which includes \$5,570 assigned from other School District funds.

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

F. Restricted Assets

Assets are reported as restricted assets when limitations on their usage change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets in the general fund include unexpended revenues restricted for the purchase of buses.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Inventory

On government-wide and fund financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventory consists of expendable supplies held for consumption and purchased food and commodities held for resale.

I. Capital Assets

The only capital assets of the School District are general capital assets. 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.

Land, buildings and improvements, and vehicles are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land	N/A
Buildings and Improvements	30 Years
Vehicles	5-10 Years

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental column of the statement of net assets.

K. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB No. 16, “Accounting for Compensated Absences.” Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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 that the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wages at fiscal year end taking into consideration any limits specified in the School District’s termination policy.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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 judgments, compensated absences, special termination 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 during the current fiscal year. The unmatured portion of these obligations should be reported as general long-term liabilities segregated between amounts due within one year and amounts due in more than one year. Long-term notes and loans are recognized as a liability on the governmental fund financial statements when due or when resources are available. The unmatured portion of these obligations should also be reported as general long-term liabilities segregated between amounts due in one year and amounts due in more than one year.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Activity

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding 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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

O. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations or expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, property taxes, bus purchases and inventory.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Estimates

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

R. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. Throughout the fiscal year, the primary level of budgetary control was at the function level within the General Fund. For all other funds, the legal level of control was at the fund level. Budgetary modifications may only be made by resolution of the Board of Education.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the Belmont County Budget Commission for rate determination.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the School District by March 1. As part of the certification, the School District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original 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.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Appropriations

A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The total of expenditures and encumbrances may not exceed appropriations at any level of control. Any revisions that alter the total of any function level appropriation within the General Fund or total fund level appropriation for all other funds, must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statement reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statement of budgetary comparison represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 3: FUND DEFICITS

At June 30, 2004 the following funds had deficit fund balances:

	Deficit
General Fund	\$933,384
Other Governmental Funds	
DPIA	\$32,024
Title I	\$58,748
Title VI	\$93
Title VI-B	\$14,517
Title VI-R	\$3,844
Title II-D	\$9,139
Food Service	\$24,016

The deficit in the General Fund was created by the lack of unrestricted available resources to cover operations in the fund as well as the application of generally accepted accounting principles. The School District is currently monitoring its financial condition and is taking steps to increase revenues and reduce spending.

The Other Governmental Funds deficit fund balances were created by the application of generally accepted accounting principles. These funds receive transfers from the General Fund when cash is needed rather than when accruals occur.

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

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

- 1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)

- 3) Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
- 4) Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the General Fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$ 2,024
Net adjustment for revenue accruals	(14,038)
Net adjustment for expenditure accruals	79,587
Adjustment for encumbrances	<u>(37,249)</u>
 Budget Basis	 <u>\$ 30,324</u>

NOTE 5: CASH AND CASH EQUIVALENTS

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

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

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

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

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

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 5: CASH AND CASH EQUIVALENTS (Continued)

Interim monies to 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 or 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 market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any 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 bankers acceptances and commercial paper notes for a period not to exceed 180 days from the purchase date in any amount not to exceed 25% of the interim monies available for investment at any one time; and
- 8) Under limited circumstances, corporate debt interests noted 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 5 years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 5: CASH AND CASH EQUIVALENTS (Continued)

Deposits

At fiscal year-end, the carrying amount of the School District's deposits was \$1,006,039 and the bank balance was \$1,034,402. Of the bank balance:

1. \$100,000 was covered by federal depository insurance.
2. \$934,402 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money has been followed, noncompliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Funds Held By Fiscal Agent

At June 30, 2004, the School District's internal fund had a balance of \$119,278 with OME-RESA, a claims servicing pool (see Note 16). The money is held by the claims servicing pool in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Self-Insurance Plan, Debra Angelo, who serves as Treasurer, Steubenville, Ohio 43952.

NOTE 6: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar year 2004 for real and public utility property taxes represent collections of calendar year 2003 taxes. Property tax payments received during calendar year 2004 for tangible personal property (other than public utility property) is for calendar year 2004 taxes.

2004 real property taxes are levied after April 1, 2003 on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

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

2004 tangible personal property taxes are levied after April 1, 2003 on the values as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 6: PROPERTY TAXES (Continued)

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	\$ 81,777,790	86.38%	\$ 87,104,040	87.96%
Tangible Personal Property	5,056,630	5.34%	4,182,380	4.22%
Personal Public Utility	7,836,760	8.28%	7,746,950	7.82%
Total Assessed Value	\$ 94,671,180	100%	\$ 99,033,370	100%
 Taxrate per \$1000 of assessed value	 \$ 32.50		 \$ 31.60	

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits 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 School District receives property taxes from Belmont and Harrison Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding, the late settlement of personal property taxes and real property, personal property and public utility taxes which became 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 year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available to the School District as an advance at June 30, 2004 was \$140,381.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 7: RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts, 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 follow:

General	\$	98
Food Service		23,592
Federal Emergency Repair Grant		<u>2,371</u>
 Total	 \$	 <u><u>26,061</u></u>

NOTE 8: CAPITAL ASSETS

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

	Balance 6/30/2003	Additions	Reductions	Balance 6/30/2004
Governmental Activities:				
<i>Capital Assets, Not Being Depreciated:</i>				
Land and Improvements	\$ 1,842,760	\$ 0	\$ 0	\$ 1,842,760
Total Capital Assets, Not Being Depreciated	<u>1,842,760</u>	<u>0</u>	<u>0</u>	<u>1,842,760</u>
 <i>Capital Assets, Being Depreciated:</i>				
Building and Building Improvements	17,591,319	0	0	17,591,319
Vehicles	1,201,908	112,682	(83,864)	1,230,726
Total Capital Assets, Being Depreciated	<u>18,793,227</u>	<u>112,682</u>	<u>(83,864)</u>	<u>18,822,045</u>
 Less Accumulated Depreciation:				
Building and Building Improvements	(4,398,692)	(527,705)	0	(4,926,397)
Vehicles	(977,585)	(60,406)	83,864	(954,127)
Total Accumulated Depreciation	<u>(5,376,277)</u>	<u>(588,111)</u>	<u>83,864</u>	<u>(5,880,524)</u>
Total Capital Assets Being Depreciated, Net	<u>13,416,950</u>	<u>(475,429)</u>	<u>0</u>	<u>12,941,521</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 15,259,710</u>	 <u>\$ (475,429)</u>	 <u>\$ 0</u>	 <u>\$ 14,784,281</u>

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 8: CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	357,216
Special		64,948
Vocational		16,237
Support Services:		
Pupils		8,119
Instructional Staff		16,237
Administration		16,237
Operation and Maintenance of Plant		1,600
Pupil Transportation		58,806
Operation of Non-Instructional Services		32,474
Extracurricular Activities		16,237
Total Depreciation Expense	\$	588,111

NOTE 9: RISK MANAGEMENT

A. General Insurance

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2003, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based upon the types of coverage, limits of coverage, and deductibles that it selects. The School District contracted with the Ohio School Plan for liability insurance. The policy has a liability per occurrence limit ranging from \$10,000 to \$2,000,000 and a \$3,000,000 aggregate annual limit.

The School District contracted with Indiana Insurance for property coverage. The property insurance policy is a replacement cost policy with a \$2,500 to \$1,000,000 deductible.

The School District contracted with the Ohio School Plan for fleet insurance. The policy has a liability per occurrence of \$1,000,000 and deductibles between \$50 and \$1,000.

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

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 9: RISK MANAGEMENT (Continued)

B. Workers' Compensation

The School District pays the State Workers' Compensation System, an insurance purchasing pool, a premium based on a rate per \$100 of salaries. The School District participates in the Ohio School Boards Association Group Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

C. Employee Health Insurance

Prescription, vision, and dental insurance are offered to employees through a self-insurance internal service fund. The School District is a member of the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance plan, a claims servicing pool, consisting of fifty members, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$3,927 reported in the internal service fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating 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.

The following shows the changes in claims activity for the past two fiscal years:

	Balance at Beginning <u>of Year</u>	<u>Claims</u>	<u>Payments</u>	Balance at <u>End of Year</u>
2004	\$ <u>9,608</u>	\$ <u>108,370</u>	\$ <u>114,051</u>	\$ <u>3,927</u>
2003	\$ <u>8,975</u>	\$ <u>131,498</u>	\$ <u>130,865</u>	\$ <u>9,608</u>

NOTE 10: DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District participates in 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.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 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% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%; 13% was the portion to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$745,728, \$770,802 and \$751,096, respectively; 83% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$124,288, representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

B. School Employees Retirement System

The School 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 per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with remainder being used to fund health care benefits; for fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$210,000, \$142,965 and \$63,964, respectively; 50% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$105,000, representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

NOTE 11: POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired 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 obligation 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from the STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$53,266 for fiscal year 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 118,853 eligible benefit recipients.

For SERS, coverage is made available to retirees, and their dependents, with 10 years or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 11: POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll, a decrease of .92% from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$93,915.

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

NOTE 12 – OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service. Current policy permits vacation leave to be accumulated up to one year. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators who work less than 260 days do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one an one-fourth days per month. Sick leave may be accumulated up to a maximum of 290 days for all certificated employees and 280 days for all non-classified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 72 days for certificated employees provided such certificated staff member has been continuously employed by the School District for 9 years and 70 days for classified employees provided such classified employee has been continuously employed by the School District for 7 years.

B. Health/Life Insurance

The School District contracts with local health management organizations, Health Plan of Upper Ohio Valley and Health Assurance, for hospitalization and major medical insurance for all employees. The School District pays monthly premiums of up to \$873.31 for family coverage and up to \$343.01 for individual coverage. Premiums are paid from the same funds that pay the employees' salaries.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13: GENERAL LONG-TERM OBLIGATIONS

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

	Outstanding July 1, 2003	Additions	Reductions	Outstanding June 30, 2004	Due in One Year
General Obligation Bond - 1997					
Variable Interest	\$ 3,065,000	\$ 0	\$ (90,000)	\$ 2,975,000	\$ 105,000
Compensated Absences	785,394	82,879	(36,274)	831,999	59,605
	<u>\$ 3,850,394</u>	<u>\$ 82,879</u>	<u>\$ (126,274)</u>	<u>\$ 3,806,999</u>	<u>\$ 164,605</u>

Outstanding General Obligation Bonds are direct obligations of the School District for which the full faith, credit and resources are pledged and are payable from taxes levied on all taxable property of the School District.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

General Obligation Bonds

The general obligation bonds were issued in 1987 and represented the local share for the School District's construction of a new high school, new elementary school, and for the middle school renovations. The general obligation bonds will be paid from the proceeds of a 4.5 mill bond levy. In addition to these proceeds, the School District received \$15,262,035 in monies from the Ohio School Facilities Commission. Initially, repayment of the Ohio School Facilities Commission funds was to be made over a twenty-three year period from a half-mill levy. During 1998, the School District passed the necessary board resolution which enables the School District to retain the half-mill levy for maintenance of the new buildings due to the School District's assessed value being below the statewide median. As a result of the approval from the Ohio School Facilities Commission, the School District has no obligation to repay the School Facilities Loan.

The School District's overall legal debt margin was \$6,138,879 at June 30, 2004.

The following is a summary of the School District's annual debt service principal and interest payments regarding the outstanding general obligation debt:

		General Obligation Bonds		
		Principal	Interest	Total
Year ending June 30,	2005	\$ 105,000	\$ 175,305	\$ 280,305
	2006	110,000	168,613	278,613
	2007	120,000	161,426	281,426
	2008	135,000	153,457	288,457
	2009-2013	875,000	622,208	1,497,208
	2014-2018	1,310,000	299,133	1,609,133
	2019	320,000	9,440	329,440
Total		<u>\$ 2,975,000</u>	<u>\$ 1,589,582</u>	<u>\$ 4,564,582</u>

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14: INTERFUND BALANCES

As of June 30, 2004, receivables and payables that resulted from cash advances from the General Fund to other funds were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 23,964	\$ 0
Other Governmental Funds	<u>0</u>	<u>23,964</u>
Totals	<u>\$ 23,964</u>	<u>\$ 23,964</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

NOTE 15: JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a jointly governed organization created as a regional council of governments pursuant to state statute. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts support OME-RESA based on a per pupil charge dependent upon the software package utilized. The OME-RESA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. OME-RESA is governed by a board of directors chosen from the general membership of the OME-RESA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting Ohio Mid-Eastern Regional Educational Service Agency, Dick Gummere, who serves as Interim Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952. The continued existence of OME-RESA is not dependent on the School District's continued participation and no measurable equity interest exists. The School District paid \$137,811 for services provided during fiscal year 2004.

B. Belmont-Harrison Vocational School

The Belmont-Harrison Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school district's elected boards, which possesses its own budgeting and taxing authority. During fiscal year 2004, the School District made no contributions to the Vocational School District. To obtain financial information write to the Belmont-Harrison Vocational School, Alexis Petrilla, who serves as Treasurer, at Fox Shannon Road, St. Clairsville, Ohio 43950.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 15: JOINTLY GOVERNED ORGANIZATIONS (Continued)

C. East Central Ohio Special Education Regional Resource Center (ECOSERRC)

The East Central Ohio Special Education Regional Resource Center is a not-for-profit Council of Governments of various school districts and other organizations in east central Ohio. The ECOSERRC participates in services that assist the participants in complying with mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the School District and the ECOSERRC is not financially dependent upon the continued participation of the School District. The School District does not maintain an equity interest in or financial responsibility for the ECOSERRC. Financial information can be obtained by contacting Julie Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Educational Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

D. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over one hundred school districts in southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various in-service for school administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition.

NOTE 16: PUBLIC ENTITY POOLS

A. Insurance Purchasing Pools

Ohio School Boards Association Workers' Compensation Group Rating Plan – The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. 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.

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

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 16: PUBLIC ENTITY POOLS (Continued)

for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

B. Claims Servicing Pool

Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan – The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool comprised of fifty members. Each participant is a member of the assembly. The Plan's business and affairs are conducted by a nine member Board of Directors elected from the OME-RESA's assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

NOTE 17: STATUTORY RESERVES

The School District is required by state law 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.

Effective April 10, 2001, through Amended Substitute Senate Bill 345, the requirement for school districts to establish and appropriate money for the budget stabilization was deleted from law. A school district may still establish reserve balance accounts consistent with Section 5705.13, Revised Code, if it so chooses; however, the requirement is no longer mandatory. In addition, any money on hand in a school district's budget reserve set-aside as of April 10, 2001, may at the discretion of the board be returned to the School District's general fund or may be left in the account and used by the board to offset any budget deficit the School District may experience in future years. The bill placed special conditions on any Bureau of Workers' Compensation monies remaining in the budget reserve.

During fiscal year 2001, the Board of Education passed a resolution to expend the budget reserve amounts pursuant to State Statute, and as a result no budget reserve exists at June 30, 2004.

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

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 17: STATUTORY RESERVES (Continued)

	Textbook Reserve	Capital Acquisition
Set-aside cash balance as of June 30, 2003	\$ (11,759)	\$ 0
Current year set-aside requirement	208,763	208,763
Current year offsets	0	(42,875)
Current year qualifying disbursements	(200,951)	(249,430)
 Total	 \$ (3,947)	 \$ (83,542)
 Set-aside balance carried forward to FY 2005	 \$ (3,947)	 \$ 0
 Cash balance carried forward to FY 2005	 \$ 0	 \$ 0

The School District met the total requirements during fiscal year 2004 for both of the set-asides. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside amount, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years.

NOTE 18: CONTINGENCIES

A. Grants

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

NOTE 19: STATE 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

This page intentionally left blank.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster: Food Donation	N/A	10.550	\$	\$60,940	\$	\$60,940
School Breakfast Program	046011-05PU	10.553	51,154		51,154	
National School Lunch Program	046011-LLP4	10.555	<u>150,577</u>		<u>150,577</u>	
Total United States Department of Agriculture - Nutrition Cluster			<u>201,731</u>	<u>60,940</u>	<u>201,731</u>	<u>60,940</u>
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education-Grants to States	046011-6BSF	84.027	239,604		242,375	
Title I Grants to Local Educational Agencies	046011-C1S1	84.010	344,401		344,401	
Innovative Education Program Strategies	046011-C2S1	84.298	10,718		10,810	
Safe and Drug-Free Schools and Communities-State Grants	046011-DRS1	84.186	15,560		15,560	
Improving Teacher Quality State Grants	046011-TRS1	84.367	103,151		101,808	
Education Technology State Grants	046011-TJS1	84.318	6,926		8,887	
Federal Emergency Repair Program	046011-AT-S2-02	84.352	<u>182,867</u>		<u>262,896</u>	
Total United States Department of Education			<u>903,227</u>	<u>0</u>	<u>986,737</u>	<u>0</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY						
<i>Passed Through Ohio Emergency Management Agency:</i>						
Public Assistance Grants	DR-1453	83.544	<u>1,769</u>			
Total Federal Emergency Management Agency			1,769	0	0	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	N/A	93.778	<u>35,216</u>		<u>35,216</u>	
Total United States Department of Health and Human Services			<u>35,216</u>	<u>0</u>	<u>35,216</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u>\$1,141,943</u>	<u>\$60,940</u>	<u>\$1,223,684</u>	<u>\$60,940</u>

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C – TRANSFERS

The Ohio Department of Education (ODE) requires School Districts to record grant funds carried over from one grant period to another grant period as a negative receipt in the original grant fund project-by-year line and as a positive receipt in the subsequent year project line. The Schedule reflects the following transfer due to ODE administrative action:

<u>CFDA Number</u>	<u>Pass-through Entity Number</u>	<u>Transfers- In</u>	<u>Transfers-Out</u>
84.318	046011-TJS1-2003		\$1,961
84.318	046011-TJS1-2004	\$1,961	



Auditor of State Betty Montgomery

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

Union Local School District
Belmont County
P.O. Box 300
Morristown, Ohio 43759

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Union Local School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated May 25, 2005, we reported another matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated May 25, 2005, we reported other matters related to noncompliance we deemed immaterial.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Union Local School District
Belmont County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

May 25, 2005



Auditor of State Betty Montgomery

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

Union Local School District
Belmont County
P.O. Box 300
Morristown, Ohio 43759

To the Board of Education:

Compliance

We have audited the compliance of the Union Local School District, Belmont County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2004. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

May 25, 2005

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies, C.F.D.A. #84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 SECTION .315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; <i>Explain:</i>
2003-001	Ohio Rev. Code Section 5705.10 states money paid into one fund may only be used for the purposes for which such fund was established.	No	Partially corrected; Reissued in the management letter.
2003-002	Ohio Rev. Code Section 5705.10 requires all revenue derived from a specific source be credited to a special fund for such purpose for which the monies were received. Advances must follow such requirements.	Yes	N/A.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

UNION LOCAL SCHOOL DISTRICT

BELMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 16, 2005**