



**Auditor of State  
Betty Montgomery**



**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

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 North Union Local School District, Union County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 North Union Local School District, Union County, Ohio, as of June 30, 2005, and the respective changes in financial position, and the Budgetary comparison for the General fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit organizations, and is not a required part of the basic financial statements. We subjected 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 a 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

January 20, 2006

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

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The discussion and analysis of North 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, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

**Highlights**

Key highlights for fiscal year 2005 are as follows:

In total, net assets increased \$1,230,831, over 11 percent. The increase is primarily the result of increases in taxes and grants and entitlements.

General revenues were \$12,604,922, or 88 percent of total revenues, and reflect the School District's substantial dependence on property taxes and unrestricted state entitlements.

In May 2002, the voters of the School District approved a 7-mill school building construction bond levy and a .5-mill capital maintenance levy. The construction levy provided for the construction of a new elementary school and additions/improvements to the existing high school. The project is part of the Expedited Local Partnership Program offered through the Ohio School Facilities Commission. The new elementary school was dedicated in August 2004. A 21,000 square foot addition to the high school began in January 2005 and was completed in September 2005. The high school addition was funded through levy funds and additional resources secured from The Richwood Banking Company, in the amount of \$1,100,00.00. The School District has received initial notification that the Ohio School Facilities Commission will begin the next phase of construction (with all revenues coming from the State) in July 2006. This will consist of a new middle school and further renovations and additions to the high school. The School District also plans to replace the high school stadium bleachers at the end of fiscal year 2006 (funds for the project will come from the Permanent Improvement fund). In addition, the School District has plans to add an auditorium to the high school. Finally, the School District renovated a former elementary school building for administrative offices. These renovations were completed in September 2004.

The School District's five-year forecast, approved by the Board of Education at each month's regular Board Meeting, illustrates that estimated expenses are expected to exceed estimated revenues in each fiscal year beginning in fiscal year 2006. In November 2005, the voters approved the renewal of an emergency operating levy. The approval of this levy ensures that there will not be an interruption of this revenue stream. The Board will closely monitor spending to extend the amount of time before it is necessary to ask voters for new operational funds. To date, the School District has not gone to the voters for new operating funds in more than ten years.

The School District provides for employee medical, drug, and dental insurance through a shared risk pool, the Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust. The pool consists of eight school districts and an educational service center. The pool is continually looking for ways to contain and minimize costs.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

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**Using the Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand North Union Local School District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater 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 a single column. For North Union Local School District, the General Fund, Bond Retirement debt service fund, and Building capital projects fund are the most significant funds.

**Reporting the School District as a Whole**

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These 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 whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, all of the School District activities are reported as governmental activities, including instruction, support services, non-instructional services, and extracurricular activities.

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

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's major funds are the General Fund, Bond Retirement debt service fund, and Building capital projects fund.

Governmental Funds - All of the School District's programs are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using 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 determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.



**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2005 and fiscal year 2004:

Table 1  
Net Assets

	Governmental Activities	
	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$15,253,961	\$16,922,780
Capital Assets, Net	16,642,643	13,006,614
Total Assets	31,896,604	29,929,394
<u>Liabilities:</u>		
Current and Other Liabilities	5,449,412	5,344,439
Long-Term Liabilities	14,591,389	13,959,983
Total Liabilities	20,040,801	19,304,422
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	3,628,526	(263,375)
Restricted	1,326,388	4,473,824
Unrestricted	6,900,889	6,414,523
Total Net Assets	\$11,855,803	\$10,624,972

The above table demonstrates some significant changes from the prior fiscal year. For current and other assets, there was almost a 10 percent decrease, most all of which is reflected in cash and cash equivalents. This decrease is the result of monies spent for construction activities. The affect of this activity is also reflected in the increase in capital assets as well as the increase in invested in capital assets, and the decrease in restricted net assets. Construction consisted of a new elementary school, renovations to the high school, and renovations to Jackson Elementary, which now serves as the administration building.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2005 and fiscal year 2004.

Table 2  
Change in Net Assets

	Governmental Activities	
	2005	2004
<u>Revenues:</u>		
Program Revenues		
Charges for Services	\$527,108	\$508,484
Operating Grants, Contributions, and Interest	1,167,774	1,003,885
Capital Grants and Contributions	22,334	25,850
Total Program Revenues	1,717,216	1,538,219
General Revenues		
Property Taxes Levied for General Purposes	3,222,713	3,293,900
Property Taxes Levied for Classroom Facilities Maintenance	63,449	41,578
Property Taxes Levied for Debt Service	792,904	790,527
Property Taxes Levied for Permanent Improvements	112,105	87,545
Income Taxes Levied for General Purposes	1,465,484	1,177,852
Grants and Entitlements	6,614,870	6,428,458
Interest	227,201	185,579
Gifts and Donations	2,000	0
Miscellaneous	104,196	22,979
Total General Revenues	12,604,922	12,028,418
Total Revenues	14,322,138	13,566,637
<u>Expenses:</u>		
Instruction:		
Regular	5,423,763	4,824,543
Special	1,206,316	1,231,622
Vocational	461,740	385,832
Support Services:		
Pupils	427,646	365,161
Instructional Staff	728,134	616,328
Board of Education	49,544	75,903
Administration	916,808	866,343
Fiscal	337,108	409,376
Operation and Maintenance of Plant	1,315,238	922,869
Pupil Transportation	767,417	660,502
Central	16,956	28,328
Non-Instructional Services	493,604	400,058
Extracurricular Activities	290,873	310,012
Interest and Fiscal Charges	656,160	569,073
Total Expenses	13,091,307	11,665,950
Increase in Net Assets	\$1,230,831	\$1,900,687

Program revenues only represent approximately 12 percent of total revenues (up slightly from the prior fiscal year) and are primarily represented by tuition and fees, charges for extracurricular activities, food service sales, and restricted intergovernmental revenues.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

As stated previously, general revenues represent 88 percent of the School District's total revenues, and of this amount, almost half is the result grants and entitlements, primarily State foundation resources. Generally, property and income taxes make up the balance of the School District's general revenues. Other revenue sources, such as interest, gifts and donations, and miscellaneous revenues are insignificant and somewhat unpredictable revenue sources. General revenues were very comparable to those of the prior fiscal year.

The major program expense, as expected, is for instruction, which accounts for 54 percent of all expenses. The instruction category, however, does not include all activities associated with educating students as the pupils, instructional staff, and pupil transportation costs have a significant role in delivering education. These programs represent approximately 15 percent total expenses. A comparison to the prior fiscal year demonstrates significant changes in two primary areas, instruction and operation and maintenance costs. The increase in the costs associated with regular instruction is due to the current negotiated agreement (salary and benefit increases) and additional staffing. However, at the same time, special education expenses decreased since, in prior years, psychology and speech services were paid through the Delaware/Union County Educational Service Center. For fiscal year 2005, these services were provided in-house. Operation and maintenance costs increased with additional staffing, higher energy costs, and overall higher energy usage for the new buildings.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction:				
Regular	\$5,423,763	\$4,824,543	\$5,213,538	\$4,759,576
Special	1,206,316	1,231,622	434,751	589,807
Vocational	461,740	385,832	381,629	300,895
Support Services:				
Pupils	427,646	365,161	416,202	287,998
Instructional Staff	728,134	616,328	728,134	577,929
Board of Education	49,544	75,903	49,544	75,903
Administration	916,808	866,343	916,808	809,905
Fiscal	337,108	409,376	337,108	409,376
Operation and Maintenance of Plant	1,315,238	922,869	1,310,548	922,869
Pupil Transportation	767,417	660,502	716,329	619,067
Central	16,956	28,328	7,956	8,022
Non-Instructional Services	493,604	400,058	23,189	20,551
Extracurricular Activities	290,873	310,012	182,195	176,760
Interest and Fiscal Charges	656,160	569,073	656,160	569,073
Total Expenses	<u>\$13,091,307</u>	<u>\$11,665,950</u>	<u>\$11,374,091</u>	<u>\$10,127,731</u>

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

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The dependence upon property and income tax revenues and unrestricted state entitlements for governmental activities was slightly greater in fiscal year 2005 as general revenues provided more towards program costs. Only a very few of the School District's programs receive a significant amount of program revenues to offset their costs. One of these programs is special instruction which provides for almost 64 percent of program costs through program revenues, much of this in the form of operating grants restricted for special instruction purposes. Over 95 percent of non-instructional services were provided for through program revenues. This is primarily due to cafeteria sales, and state and federal subsidies and donated commodities for food service. Over 37 percent of extracurricular activities expenses are covered by program revenues. This is the result of music and athletic fees, ticket sales, and gate receipts.

**The School District's Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. A review of the School District's major funds demonstrates an increase in fund balance for both the General Fund and Bond Retirement debt service fund. While the percentage of this increase was not significant for the General Fund, it is notable that revenues exceeded expenditures. For the Bond Retirement fund, the percentage of increase was somewhat significant and due to tax collections currently exceeding debt payment requirements. The Building capital projects fund had a substantial decrease in fund balance as construction activities on the new elementary building and administrative office renovations were wrapping up in fiscal year 2005.

**General Fund Budgeting Highlights**

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

During fiscal year 2005, the School District amended its General Fund budget as needed. There was very little change in revenue amounts reflected in the original and final budget. However, actual revenues received for the fiscal year were significantly higher than estimated, particularly for intergovernmental revenue. The School District is very conservative in its revenue projections. The original budget submitted to the Union County Auditor reflected the uncertainty of revenue from the State. Since almost 50 percent of the School District's revenues come from the State, we would rather be on the low side than to project too much.

For expenditures, the variance from original to final budget amounts and from the final budget to actual expenditures was insignificant. However, the final budget for regular instruction was significantly higher than the original budget. The overall budget of expenditures was fairly accurate. The regular instruction program costs should have been increased to more closely match actual expenditures. However, since the School District budgets at the fund level, we still feel the overall projection was accurate.

While the overall decrease in fund balance was only 5 percent, revenues did exceed expenditures. The transfer of \$320,000 for the demolition of Claiborne-Richwood Elementary caused the decrease in fund balance.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED  
(Continued)**

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**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2005, the School District had \$16,642,643 invested in capital assets (net of accumulated depreciation), an increase of \$3,636,029, or about 28 percent. The completion of the new elementary, renovations to Jackson Elementary, and increased construction in progress for high school improvements are primarily the reasons for this increase.

Additions included such items as the new building and renovations, administrative office, playground, and food service equipment, and two new school buses. Disposals included the Claibourne-Richwood Elementary building; computer, office, and playground equipment; and two school buses. Many of these items were sold at public auction. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

**Debt**

The School District's outstanding debt at June 30, 2005, included consisted of general obligation bonds, in the amount of \$12,900,520, and a building loan, in the amount of \$1,100,000. The School District's long-term obligations also include compensated absences. For further information regarding the School District's long-term obligations, refer to Note 17 to the basic financial statements.

**Current Issues**

As stated previously, the School District has many construction projects that will include new high school stadium bleachers, a new middle school, additions/renovations to the high school, and a new auditorium for the high school. These projects are to be funded through the Ohio School Facilities Commission, the Permanent Improvement fund, and possibly other financing arrangements.

The Board of Education will enter into contract negotiations in April/May 2006 with the North Union Education Association. The local union is a wall to wall union, meaning that both certified and classified staff are represented by one union. The Board of Education hopes to come to an agreement with the union before the end of the 2006 fiscal year.

The School District will be engaged in a new superintendent search. The current superintendent will be retiring from the School District on July 31, 2006, after 11 years of service. The Board of Education has hired a professional search firm to assist in the search process. We are planning to name the next superintendent at the March/April Board Meeting. We are hoping to have the new individual on staff in July 2006 for a transitional period with the retiring superintendent.

**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 reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Scott Maruniak, CFO/Treasurer, North Union Local School District, 12920 State Route 739, Richwood, Ohio 43344.

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**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$10,386,875
Cash and Cash Equivalents with Fiscal Agent	16,484
Accounts Receivable	6,214
Accrued Interest Receivable	7,556
Intergovernmental Receivable	69,320
Due from External Parties	1,815
Income Taxes Receivable	610,228
Prepaid Items	128,114
Property Taxes Receivable	4,027,355
Nondepreciable Capital Assets	2,599,091
Depreciable Capital Assets, Net	<u>14,043,552</u>
Total Assets	<u>31,896,604</u>
 <u>Liabilities:</u>	
Accounts Payable	72,323
Contracts Payable	350,731
Accrued Wages and Benefits Payable	1,147,078
Intergovernmental Payable	280,871
Retainage Payable	98,360
Matured Bonds Payable	16,484
Accrued Interest Payable	43,178
Deferred Revenue	3,440,387
Long-Term Liabilities:	
Due Within One Year	390,581
Due in More Than One Year	<u>14,200,808</u>
Total Liabilities	<u>20,040,801</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	3,628,526
Restricted For:	
Debt Service	352,736
Capital Projects	697,190
Other Purposes	276,462
Unrestricted	<u>6,900,889</u>
Total Net Assets	<u><u>\$11,855,803</u></u>

See Accompanying Notes to Basic Financial Statements

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Program Revenues				Net (Expense) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$5,423,763	\$71,902	\$138,323	\$0	(\$5,213,538)
Special	1,206,316	3,249	768,316	0	(434,751)
Vocational	461,740	0	80,111	0	(381,629)
Support Services:					
Pupils	427,646	0	11,444	0	(416,202)
Instructional Staff	728,134	0	0	0	(728,134)
Board of Education	49,544	0	0	0	(49,544)
Administration	916,808	0	0	0	(916,808)
Fiscal	337,108	0	0	0	(337,108)
Operation and Maintenance of Plant	1,315,238	0	4,690	0	(1,310,548)
Pupil Transportation	767,417	6,950	21,804	22,334	(716,329)
Central	16,956	0	9,000	0	(7,956)
Non-Instructional Services	493,604	358,367	112,048	0	(23,189)
Extracurricular Activities	290,873	86,640	22,038	0	(182,195)
Interest and Fiscal Charges	656,160	0	0	0	(656,160)
Total Governmental Activities	<u>\$13,091,307</u>	<u>\$527,108</u>	<u>\$1,167,774</u>	<u>\$22,334</u>	<u>(11,374,091)</u>

General Revenues:

Property Taxes Levied for General Purposes	3,222,713
Property Taxes Levied for Classroom Facilities Maintenance Purposes	63,449
Property Taxes Levied for Debt Service Purposes	792,904
Property Taxes Levied for Permanent Improvement Purposes	112,105
Income Taxes Levied for General Purposes	1,465,484
Grants and Entitlements not Restricted to Specific Programs	6,614,870
Interest	227,201
Gifts and Donations	2,000
Miscellaneous	104,196
Total General Revenues	<u>12,604,922</u>
Change in Net Assets	1,230,831
Net Assets at Beginning of Year - Restated (Note 3)	<u>10,624,972</u>
Net Assets at End of Year	<u>\$11,855,803</u>

See Accompanying Notes to the Basic Financial Statements



**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	General	Bond Retirement	Building	Other Governmental	Total Governmental Funds
<b>Assets:</b>					
Equity in Pooled Cash and Cash Equivalents	\$7,981,563	\$283,686	\$920,874	\$1,179,288	\$10,365,411
Cash and Cash Equivalents with Fiscal Agent	0	16,484	0	0	16,484
Accounts Receivable	6,174	0	0	40	6,214
Accrued Interest Receivable	7,556	0	0	0	7,556
Interfund Receivable	3,684	0	0	0	3,684
Intergovernmental Receivable	9,521	41	0	59,758	69,320
Due from External Parties	1,815	0	0	0	1,815
Income Taxes Receivable	610,228	0	0	0	610,228
Prepaid Items	94,710	0	23,867	9,537	128,114
<b>Restricted Assets:</b>					
Equity in Pooled Cash and Cash Equivalents	21,464	0	0	0	21,464
Property Taxes Receivable	3,097,182	762,012	0	168,161	4,027,355
<b>Total Assets</b>	<b>\$11,833,897</b>	<b>\$1,062,223</b>	<b>\$944,741</b>	<b>\$1,416,784</b>	<b>\$15,257,645</b>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities</b>					
Accounts Payable	\$65,679	\$0	\$0	\$6,644	\$72,323
Contracts Payable	0	0	176,132	174,599	350,731
Accrued Wages and Benefits Payable	1,045,114	0	0	101,964	1,147,078
Interfund Payable	0	0	0	3,684	3,684
Intergovernmental Payable	250,283	0	0	30,588	280,871
Retainage Payable	0	0	69,308	29,052	98,360
Matured Bonds Payable	0	16,484	0	0	16,484
Deferred Revenue	2,821,074	665,638	0	146,880	3,633,592
<b>Total Liabilities</b>	<b>4,182,150</b>	<b>682,122</b>	<b>245,440</b>	<b>493,411</b>	<b>5,603,123</b>
<b>Fund Balances:</b>					
Reserved for Property Taxes	387,360	96,415	0	21,289	505,064
Reserved for Budget Stabilization	21,464	0	0	0	21,464
Reserved for Encumbrances	603,476	0	635,233	440,069	1,678,778
<b>Unreserved, Reported in:</b>					
General Fund	6,639,447	0	0	0	6,639,447
Special Revenue Funds	0	0	0	172,634	172,634
Debt Service Fund	0	283,686	0	0	283,686
Capital Projects Funds	0	0	64,068	289,381	353,449
<b>Total Fund Balances</b>	<b>7,651,747</b>	<b>380,101</b>	<b>699,301</b>	<b>923,373</b>	<b>9,654,522</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$11,833,897</b>	<b>\$1,062,223</b>	<b>\$944,741</b>	<b>\$1,416,784</b>	<b>\$15,257,645</b>

See Accompanying Notes to the Basic Financial Statements

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005**

Total Governmental Fund Balances	\$9,654,522
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	16,642,643
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	13,566	
Accrued Interest Receivable	2,156	
Income Taxes Receivable	95,363	
Property Taxes Receivable	82,120	
		193,205

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(43,178)	
General Obligation Bonds Payable	(12,900,520)	
Building Loan Payable	(1,100,000)	
Compensated Absences Payable	(590,869)	
		(14,634,567)

Net Assets of Governmental Activities	\$11,855,803
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See Accompanying Notes to the Basic Financial Statements

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	General	Bond Retirement	Building	Other Governmental	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$3,226,307	\$795,425	\$0	\$175,874	\$4,197,606
Income Taxes	1,370,121	0	0	0	1,370,121
Intergovernmental	6,888,999	100,136	0	790,078	7,779,213
Interest	182,399	0	42,646	600	225,645
Tuition and Fees	64,539	0	0	0	64,539
Extracurricular Activities	0	0	0	86,640	86,640
Charges for Services	0	0	0	357,831	357,831
Gifts and Donations	1,000	0	0	23,038	24,038
Miscellaneous	47,904	0	0	75,824	123,728
<b>Total Revenues</b>	<b>11,781,269</b>	<b>895,561</b>	<b>42,646</b>	<b>1,509,885</b>	<b>14,229,361</b>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	5,041,620	0	0	108,997	5,150,617
Special	843,920	0	0	350,435	1,194,355
Vocational	456,511	0	0	1,940	458,451
Support Services:					
Pupils	386,256	0	0	43,454	429,710
Instructional Staff	567,036	0	0	171,549	738,585
Board of Education	49,544	0	0	0	49,544
Administration	896,674	2,279	0	27,155	926,108
Fiscal	345,123	13,074	0	2,888	361,085
Operation and Maintenance of Plant	1,269,260	0	0	30,119	1,299,379
Pupil Transportation	811,279	0	0	1,447	812,726
Central	2,956	0	0	14,000	16,956
Non-Instructional Services	3,458	0	0	472,289	475,747
Extracurricular Activities	175,947	0	0	101,917	277,864
Capital Outlay	60,484	0	2,567,513	1,313,978	3,941,975
Debt Service:					
Principal Retirement	0	260,000	0	385,000	645,000
Interest and Fiscal Charges	0	538,892	0	7,864	546,756
<b>Total Expenditures</b>	<b>10,910,068</b>	<b>814,245</b>	<b>2,567,513</b>	<b>3,033,032</b>	<b>17,324,858</b>
Excess of Revenues Over (Under) Expenditures	871,201	81,316	(2,524,867)	(1,523,147)	(3,095,497)
<u>Other Financing Sources (Uses):</u>					
Proceeds of Loan	0	0	0	1,100,000	1,100,000
Sale of Capital Assets	0	0	0	29,829	29,829
Transfers In	0	0	0	343,000	343,000
Transfers Out	(320,000)	0	(23,000)	0	(343,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(320,000)</b>	<b>0</b>	<b>(23,000)</b>	<b>1,472,829</b>	<b>1,129,829</b>
<b>Changes in Fund Balances</b>	<b>551,201</b>	<b>81,316</b>	<b>(2,547,867)</b>	<b>(50,318)</b>	<b>(1,965,668)</b>
Fund Balances at Beginning of Year - Restated (Note 3)	7,100,546	298,785	3,247,168	973,691	11,620,190
<b>Fund Balances at End of Year</b>	<b>\$7,651,747</b>	<b>\$380,101</b>	<b>\$699,301</b>	<b>\$923,373</b>	<b>\$9,654,522</b>

See Accompanying Notes to the Basic Financial Statements

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Changes in Fund Balances - Total Governmental Funds (\$1,965,668)

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

Governmental funds report capital outlays as expenditures.

However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current fiscal year:

Capital Outlay - Construction in Progress	3,537,543	
Capital Outlay - Depreciable Capital Assets	429,986	
Depreciation	<u>(279,524)</u>	
		3,688,005

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.

Proceeds from Sale of Capital Assets	(29,829)	
Loss on Disposal of Capital Assets	<u>(22,147)</u>	
		(51,976)

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

Property Taxes	(6,435)	
Income Taxes	95,363	
Intergovernmental	(3,873)	
Interest	2,156	
Tuition and Fees	5,558	
Charges for Services	<u>8</u>	
		92,777

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

645,000

The proceeds of loans are reported as other financing sources in governmental funds, but increases long-term liabilities on the statement of net assets.

(1,100,000)

Interest is reported as an expenditure when due in governmental funds, but is accrued on outstanding debt on the statement of net assets.

Accrued Interest Payable	(16)	
Annual Accretion	<u>(109,388)</u>	
		(109,404)

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

Intergovernmental Payable	99,115	
Compensated Absences Payable	<u>(67,018)</u>	
		<u>32,097</u>

Change in Net Assets of Governmental Activities		<u>\$1,230,831</u>
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See Accompanying Notes to the Basic Financial Statements

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<u>Revenues:</u>				
Property Taxes	\$2,889,930	\$2,889,930	\$3,161,680	\$271,750
Income Taxes	1,000,000	1,000,000	1,244,991	244,991
Intergovernmental	5,232,182	5,232,182	6,888,999	1,656,817
Interest	100,000	100,000	182,570	82,570
Tuition and Fees	25,000	25,000	64,539	39,539
Gifts and Donations	0	0	1,000	1,000
Miscellaneous	15,000	11,691	46,167	34,476
Total Revenues	<u>9,262,112</u>	<u>9,258,803</u>	<u>11,589,946</u>	<u>2,331,143</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	3,742,212	5,205,019	5,251,288	(46,269)
Special	924,278	862,253	855,894	6,359
Vocational	746,332	470,912	472,534	(1,622)
Support Services:				
Pupils	383,583	401,839	401,800	39
Instructional Staff	699,501	586,137	584,573	1,564
Board of Education	97,731	72,123	71,304	819
Administration	1,218,770	904,516	903,080	1,436
Fiscal	476,394	368,980	388,867	(19,887)
Operation and Maintenance of Plant	1,659,103	1,594,668	1,503,868	90,800
Pupil Transportation	821,560	790,619	790,619	0
Central	2,854	2,800	2,800	0
Non-Instructional Services	3,267	3,297	3,297	0
Extracurricular Activities	223,681	181,979	181,679	300
Capital Outlay	76,810	64,964	64,964	0
Total Expenditures	<u>11,076,076</u>	<u>11,510,106</u>	<u>11,476,567</u>	<u>33,539</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,813,964)</u>	<u>(2,251,303)</u>	<u>113,379</u>	<u>2,364,682</u>
<u>Other Financing Sources (Uses):</u>				
Advances In	0	0	2,388	2,388
Advances Out	(2,555)	(5,499)	(5,499)	0
Transfers Out	(121,500)	(320,000)	(320,000)	0
Other Financing Uses	(20,000)	(11,691)	(11,691)	0
Total Other Financing Sources (Uses)	<u>(144,055)</u>	<u>(337,190)</u>	<u>(334,802)</u>	<u>2,388</u>
Changes in Fund Balance	(1,958,019)	(2,588,493)	(221,423)	2,367,070
Fund Balance at Beginning of Year	7,010,138	7,010,138	7,010,138	0
Prior Year Encumbrances Appropriated	560,991	560,991	560,991	0
Fund Balance at End of Year	<u>\$5,613,110</u>	<u>\$4,982,636</u>	<u>\$7,349,706</u>	<u>\$2,367,070</u>

See Accompanying Notes to the Basic Financial Statements

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005**

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	<u>\$67,848</u>	<u>\$72,464</u>
<u>Liabilities:</u>		
Due to External Parties	1,815	0
Undistributed Assets	0	5,141
Due to Students	0	67,323
Total Liabilities	<u>1,815</u>	<u>\$72,464</u>
<u>Net Assets:</u>		
Held in Trust for Scholarships	15,046	
Endowment	<u>50,987</u>	
Total Net Assets	<u>\$66,033</u>	

See Accompanying Notes to the Basic Financial Statements

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PRIVATE PURPOSE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Additions:

Interest	\$1,772
Gifts and Donations	6,915
Total Additions	<u>8,687</u>

Deductions:

Non-Instructional Services	<u>4,915</u>
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Change in Net Assets 3,772

Net Assets at Beginning of Year - Restated (Note 3) 62,261

Net Assets at End of Year \$66,033

See Accompanying Notes to the Basic Financial Statements

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**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

North Union Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District was established in 1963. The School District serves an area of approximately one hundred sixty square miles and is located in Union and Delaware Counties. The School District is the 380th largest in the State of Ohio (among 611 school districts) in terms of enrollment. It is staffed by sixty-seven classified employees, one hundred four certified teaching personnel, and eleven administrative employees who provide services to 1,504 students and other community members. The School District currently operates an elementary school, a middle school, a high school, an administration building, and a bus garage.

**Reporting Entity**

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

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

The School District participates in four jointly governed organizations and three insurance pools. These organizations are the Metropolitan Education Council, Tri-Rivers Joint Vocational School, Central Ohio Regional Professional Development Center, Central Ohio Special Educational Regional Resource Center, Ohio School Plan, Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust. These organizations are presented in Notes 21 and 22 to the basic financial statements.

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

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

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

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

**Governmental Funds**

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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

Bond Retirement Fund - The Bond Retirement Fund is used to account for the accumulation of resources for and the payment of principal and interest on general obligation bonds.

Building Fund - The Building Fund is used to account for the construction of a new elementary school and a portion of the high school addition.

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

Fiduciary Funds

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

**C. Measurement Focus**

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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**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; fiduciary funds use the full accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Nonexchange Transactions**

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

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

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

**Deferred Revenues**

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

Property taxes for which there was an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

Expenses/Expenditures

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

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

**E. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level and cost center for all funds. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

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

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

**F. Cash and Investments**

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

Cash and cash equivalents held for the School District by the Richwood Banking Company, who services the School District's bond/coupon account, are included on the financial statements as "Cash and Cash Equivalents with Fiscal Agent".

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

During fiscal year 2005, the School District invested in nonnegotiable certificates of deposit, which are reported at cost, federal agency securities, which are reported at fair value, and STAR Ohio. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2005 was \$182,399, which includes \$16,902 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Restricted Assets**

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

**I. Capital Assets**

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

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of two thousand five hundred dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

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

<u>Description</u>	<u>Useful Lives</u>
Land Improvements	20 - 50 years
Buildings and Building Improvements	24 - 147 years
Furniture, Fixtures, and Equipment	8 - 75 years
Vehicles	10 - 40 years

**J. Interfund Assets/Liabilities**

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

**K. Compensated Absences**

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

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

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

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

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. As of June 30, 2005, net assets restricted by enabling legislation was \$829,133.

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

**N. Fund Balance Reserves**

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

**O. Interfund Transactions**

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

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

**P. Extraordinary and Special Items**

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



**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**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.

**Note 3 - Change in Accounting Principles, Correction of Errors, and Restatement of Fund Balance/Net Assets**

**A. Change in Accounting Principles**

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any changes to the School District's financial statements.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Technical Bulletin 2004-2 establishes new guidance addressing the amount that should be recognized as expenditures/expenses and as liabilities each period by employers participating in cost-sharing multiple-employer pension and other postemployment benefit plans. The implementation of this bulletin did not result in any material change to the School District's financial statements.

**B. Correction of Errors**

In the prior fiscal year, the School District reported several funds incorrectly, made errors in reporting capital assets, and did not record the accretion on capital appreciation bonds.

The restatement due to the above corrections had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported.

	General	Debt Service	Building	Other Governmental	Total Governmental Activities
Fund Balance June 30, 2004	\$7,038,925	\$298,785	\$4,062,290	\$157,410	\$11,557,410
Change in Fund Structure	61,621	0	(815,122)	816,281	62,780
Adjusted Fund Balance at June 30, 2004	<u>\$7,100,546</u>	<u>\$298,785</u>	<u>\$3,247,168</u>	<u>\$973,691</u>	<u>\$11,620,190</u>

**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Note 3 - Change in Accounting Principles, Correction of Errors, and Restatement of Fund Balance/Net Assets** (continued)

The restatement had the following effect on net assets.

	Total Governmental Activities	Private Purpose Trust
Net Assets at June 30, 2004	\$11,283,997	\$63,420
Change in Fund Structure	62,780	(1,159)
Correction of Capital Assets	(555,662)	0
Correction of Capital Appreciation Bonds	(166,143)	0
Adjusted Governmental Activities Net Assets at June 30, 2004	\$10,624,972	
Adjusted Fiduciary Fund Net Assets at June 30, 2004		\$62,261

**Note 4 - Accountability**

At June 30, 2005, the School Age Child Care, Title I, and Title II-A special revenue funds had deficit fund balances, in the amount of \$3,665, \$31,918, and \$3,536, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**Note 5 - Budgetary Basis of Accounting**

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

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Note 5 - Budgetary Basis of Accounting** (continued)

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

Changes in Fund Balance	
GAAP Basis	\$551,201
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received in Cash FY 2005	712,693
Accrued FY 2005, Not Yet Received in Cash	(909,587)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(1,185,664)
Accrued FY 2005, Not Yet Paid in Cash	1,361,076
Cash Adjustments:	
Unrecorded Activity FY 2005	5,571
Prepaid Items	(94,710)
Advances In	2,388
Advances Out	(5,499)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(658,892)
Budget Basis	(\$221,423)

**Note 6 - Deposits and Investments**

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

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

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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**Note 6 - Deposits and Investments** (continued)

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the 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.

**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Note 6 - Deposits and Investments** (continued)

Investments

As of June 30, 2005, the School District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Bank Bonds	\$159,250	11/17/05
Federal Home Loan Mortgage Corporation Notes	148,736	5/5/06
Federal Home Loan Mortgage Corporation Notes	48,996	5/9/09
STAR Ohio	7,308,408	30.4 days

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the Treasurer from investing in anything other than is identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District.

The Federal Home Loan Bank Bonds and Federal Home Loan Mortgage Corporation Notes carry a rating of AAA by Moody's. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no investment policy dealing with investment credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Bonds and Federal Home Loan Mortgage Corporation Notes are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School District's name. The School District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of securities representing such investments to the treasurer or qualified trustee.

The School District places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of each investment to the School District's total portfolio.

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Federal Home Loan Bank Bonds	\$159,250	1.94%
Federal Home Loan Mortgage Corporation Notes	148,736	.64
Federal Home Loan Mortgage Corporation Notes	48,996	2.08

**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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**Note 7 - Receivables**

Receivables at June 30, 2005, consisted of accounts (student fees and billings for user charged services), accrued interest, interfund, intergovernmental, amounts due from external parties, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
General Fund	
Tuition	\$9,346
Homestead and Rollback	175
Total General Fund	<u>9,521</u>
Bond Retirement	
Homestead and Rollback	<u>41</u>
Other Governmental Funds	
Food Service	4,350
Title VI	38,651
Title I	8,731
Title II-A	8,026
Total Other Governmental Funds	<u>59,758</u>
Total Intergovernmental Receivables	<u><u>\$69,320</u></u>

**Note 8 - Income Taxes**

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**Note 9 - Property Taxes**

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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**Note 9 - Property Taxes** (continued)

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Union and Delaware Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2005, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005, was \$387,360 in the General Fund, \$7,025 in the Classroom Facilities Maintenance special revenue fund, \$96,415 in the Bond Retirement debt service fund, and \$14,264 in the Permanent Improvement capital projects fund. The amount available as an advance at June 30, 2004, was \$322,733 in the General Fund, \$80,611 in the Bond Retirement debt service fund, and \$17,639 in the Permanent Improvement capital projects fund.

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Note 9 - Property Taxes** (continued)

The assessed values upon which fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$102,400,170	86.97%	\$104,387,250	86.52%
Industrial/Commercial	4,767,540	4.05	6,125,830	5.08
Public Utility	7,919,260	6.73	7,998,340	6.63
Tangible Personal	2,660,210	2.25	2,140,800	1.77
Total Assessed Value	<u>\$117,747,180</u>	<u>100.00%</u>	<u>\$120,652,220</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$41.30		\$41.30	

**Note 10 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$298,011	\$0	\$0	\$298,011
Construction in Progress	9,046,231	3,537,543	(10,282,694)	2,301,080
Total Nondepreciable Capital Assets	<u>9,344,242</u>	<u>3,537,543</u>	<u>(10,282,694)</u>	<u>2,599,091</u>
Depreciable Capital Assets				
Land Improvements	280,033	128,383	0	408,416
Buildings and Building Improvements	4,203,106	10,282,694	(449,202)	14,036,598
Furniture, Fixtures, and Equipment	592,476	185,703	(53,433)	724,746
Vehicles	999,463	115,900	(75,296)	1,040,067
Total Depreciable Capital Assets	<u>6,075,078</u>	<u>10,712,680</u>	<u>(577,931)</u>	<u>16,209,827</u>

(continued)



**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Note 10 - Capital Assets** (continued)

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Governmental Activities (continued)				
Less Accumulated Depreciation				
Land Improvements	(\$8,868)	(\$9,345)	\$0	(\$18,213)
Buildings and Building Improvements	(1,616,121)	(146,195)	416,677	(1,345,639)
Furniture, Fixtures, and Equipment	(327,376)	(31,890)	36,526	(322,740)
Vehicles	(460,341)	(92,094)	72,752	(479,683)
Total Accumulated Depreciation	<u>(2,412,706)</u>	<u>(279,524)</u>	<u>525,955</u>	<u>(2,166,275)</u>
Depreciable Capital Assets, Net	<u>3,662,372</u>	<u>10,433,156</u>	<u>(51,976)</u>	<u>14,043,552</u>
Governmental Activities Capital Assets, Net	<u>\$13,006,614</u>	<u>\$13,970,699</u>	<u>(\$10,334,670)</u>	<u>\$16,642,643</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular		\$82,358
Special		13,204
Vocational		4,543
Support Services:		
Pupils		599
Instructional Staff		6,095
Administration		8,219
Fiscal		1,792
Operation and Maintenance of Plant		23,642
Pupil Transportation		96,265
Non-Instructional Services		29,798
Extracurricular Activities		13,009
Total Depreciation Expense		<u>\$279,524</u>

**Note 11 - Interfund Assets/Liabilities**

At June 30, 2005, the General Fund had an interfund receivable from other governmental funds, in the amount of \$3,684, to provide a short term loan. The General Fund also had monies due from external parties, in the amount of \$1,815, to provide a short term loan.

**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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**Note 12 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted for the following insurance coverage.

Coverage provided by the Ohio School Plan is as follows:

General School District Liability	
Per Occurrence	\$1,000,000
Total per Year	3,000,000

Coverage provided by the Netherlands Insurance Company as follows:

Automobile Liability	1,000,000
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Coverage provided by Indiana Insurance is as follows:

Buildings and Contents - replacement cost	39,595,814
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Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year. Building and contents coverage increased significantly due to the addition of the new elementary school.

For fiscal year 2005, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Note 13 - Contractual Commitments**

The School District has outstanding contracts for professional services. The following amounts remained on these contracts as of June 30, 2005:

Vendor	Contract Amount	Amount Paid as of 6/30/05	Outstanding Balance
MKC	\$110,285	\$49,186	\$61,099
Settle and Muter Electric	471,000	364,378	106,622
Studer-Obringer	1,709,000	712,544	996,456
Vaughn Industries	264,600	89,424	175,176
Winchester Mechanical	168,125	57,483	110,642

**Note 14 - Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. 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 balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP 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.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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**Note 14 - Defined Benefit Pension Plans** (continued)

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 was \$688,783, \$638,547 and \$618,657, respectively; 84 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$22 made by the School District and \$9,945 made by plan members.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 was \$152,612, \$120,181, and \$102,992, respectively; 46 percent has been contributed for the fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2005, four of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 15 - Postemployment Benefits**

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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**Note 15 - Postemployment Benefits** (continued)

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$52,985.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. 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 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including the surcharge, was \$71,485 for fiscal year 2005.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available), 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 16 - Other Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred eighty days for all employees. Upon retirement, payment is made for one-fourth of their accrued but unused sick leave credit to a maximum of forty days for all employees.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Note 16 - Other Employee Benefits** (continued)

**B. Health Care Benefits**

The School District offers medical, drug, and dental insurance to all employees through the Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Life insurance is offered to all employees through Unum Provident.

**C. Special Termination Benefits**

The School District offers a special termination benefit in addition to regular severance benefits and STRS pension benefits to certified employees who notify the School District of their retirement by July 9<sup>th</sup> of that year and they meet one of the following conditions:

Criteria	Cash Benefit
55 or older and 25 years of service or 30 years of service	\$5,000
55 or older and 26 years of service or 31 years of service	\$3,000
55 or older and 27 years of service or 32 years of service	\$1,000

At June 30, 2005, there was no liability for special termination benefits. The current special termination benefit offer expires June 30, 2006.

**Note 17 - Long-Term Obligations**

Changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05	Amounts Due Within One Year
Governmental Activities					
General Long-Term Obligations					
FY 2003 General Obligation Bonds					
Serial Bonds 3-4.75%	\$6,830,000	\$0	\$260,000	\$6,570,000	\$350,000
Term Bonds 4.75-5.0%	5,475,000	0	0	5,475,000	0
Capital Appreciation Bonds	579,989	0	0	579,989	0
Accretion on Capital Appreciation	166,143	109,388	0	275,531	0
Total General Obligation Bonds	13,051,132	109,388	260,000	12,900,520	350,000
FY 2001 Building Loan	385,000	0	385,000	0	0
FY 2005 Building Loan	0	1,100,000	0	1,100,000	5,000
Compensated Absences	523,851	79,580	12,562	590,869	35,581
Total Governmental Activities Long-Term Obligations	\$13,959,983	\$1,288,968	\$657,562	\$14,591,389	\$390,581

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Note 17 - Long-Term Obligations** (continued)

As of June 30, 2005, the School District had unspent bond and loan proceeds, in the amount of \$300,434 and \$410,438, respectively.

FY 2003 General Obligation Bonds - On August 29, 2002, the School District issued general obligation bonds for constructing and renovating the School District's buildings. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$6,945,000, \$5,475,000, and \$579,989, respectively. The bonds were issued for a twenty-eight year period, with final maturity in fiscal year 2031. The bonds are being repaid from the Bond Retirement debt service fund.

The term bonds maturing on December 1, 2027, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the date of redemption, on December 1 in each of the years and principal amounts as follows:

Year	Amount
2023	\$575,000
2024	605,000
2025	635,000
2026	665,000

The remaining principal, in the amount of \$695,000, will be paid at stated maturity on December 1, 2027.

The term bonds maturing on December 1, 2030, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the date of redemption, on December 1 in each of the years and in principal amounts as follows:

Year	Amount
2028	\$730,000
2029	765,000

The remaining principal, in the amount of \$805,000, will be paid at stated maturity on December 1, 2030.

The serial bonds maturing after December 1, 2012, are subject to optional redemption, either in whole or in part, in such order as the School District shall determine, on any interest payment date on or after December 1, 2012, at the redemption prices set forth below plus accrued interest to the redemption date:

Redemption Date	Redemption Price
December 1, 2012, and thereafter	100%

FY 2001 Building Loan - On December 1, 2000, the School District obtained a loan, in the amount of \$500,000, to implement building renovations for Jackson Elementary and North Union High School. The loan was obtained under the authority of Ohio Revised Code Section 3313.375. The loan was fully retired in fiscal year 2005.

FY 2005 Building Loan - On June 29, 2005, the School District obtained a loan, in the amount of \$1,100,000 for the high school renovation project. The loan was obtained under the authority of Ohio Revised Code 3313.375. The loan was obtained for a thirty year period with final maturity in fiscal year 2035. The loan is being repaid from the Permanent Improvement capital projects fund.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Note 17 - Long-Term Obligations** (continued)

Compensated absences will be paid from the General Fund and the Food Service special revenue fund.

The School District's overall debt margin was (\$2,486,188) with an unvoted debt margin of \$120,652 at June 30, 2005. The School District has been authorized by the Ohio Superintendent of Public Instruction to exceed its overall limitation because it has been designated as a "special needs" school district.

Principal and interest requirements to retire general long-term obligations outstanding at June 30, 2005, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds				
	Serial	Term	Capital	Interest	Total
2006	\$350,000	\$0	\$0	\$531,317	\$881,317
2007	0	0	203,918	731,560	935,478
2008	0	0	182,719	710,362	893,081
2009	0	0	193,352	720,994	914,346
2010	465,000	0	0	519,970	984,970
2011-2015	1,965,000	0	0	2,374,350	4,339,350
2016-2020	2,210,000	0	0	1,959,076	4,169,076
2021-2025	1,580,000	1,180,000	0	1,388,311	4,148,311
2026-2030	0	3,490,000	0	646,119	4,136,119
2031-2035	0	805,000	0	20,125	825,125
	<u>\$6,570,000</u>	<u>\$5,475,000</u>	<u>\$579,989</u>	<u>\$9,602,184</u>	<u>\$22,227,173</u>

Fiscal Year Ending June 30,	Building Loan	
	Principal	Interest
2006	\$5,000	\$31,876
2007	5,000	34,414
2008	22,000	33,988
2009	23,000	33,280
2010	24,000	32,540
2011-2015	139,000	187,849
2016-2020	171,000	188,722
2021-2025	202,000	168,779
2026-2030	238,000	123,685
2031-2035	271,000	49,585
Total	<u>\$1,100,000</u>	<u>\$884,718</u>



**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**Note 18 - Set Asides**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2005, only the unspent portion of certain workers' compensation refunds continues to be set aside.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2005.

	Textbooks	Capital Improvements	Budget Stabilization
Balance June 30, 2004	(\$686,292)	\$0	\$21,464
Current Year Set Aside Requirement	208,743	208,743	0
Qualifying Expenditures	(433,617)	(12,415,876)	0
Balance June 30, 2005	(\$911,166)	(\$12,207,133)	\$21,464

The School District had qualifying expenditures during the fiscal year that reduced the textbooks and capital improvements set aside amounts below zero. These amounts may be used to reduce the set aside requirements in future fiscal years. The total reserve balance for set asides at the end of the fiscal year was \$21,464.

**Note 19 - Interfund Transfers**

During fiscal year 2005, the General Fund made a transfer to other governmental funds, in the amount of \$320,000, to subsidize various permanent improvements, primarily the demolition of Claiborne Richwood Elementary. The Building capital projects fund made a transfer to other governmental funds, in the amount of \$23,000, to subsidize various improvements.

**Note 20 - Donor Restricted Endowments**

The School District's private purpose trust fund includes donor restricted endowments. Endowment, in the amount of \$50,987 represents the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$15,046 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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**Note 21 - Jointly Governed Organizations**

**A. Metropolitan Education Council**

The Metropolitan Education Council (MEC) is a purchasing cooperative made up of one hundred forty-two school districts, libraries, and related agencies in twenty-seven counties. The purpose of the MEC is to obtain prices for quality merchandise and services commonly used by the participants. The governing board of the MEC consists of one representative from each participant. All participants must pay all fees, charges, or other assessments as established by the MEC.

The School District also participates in the Metropolitan Educational Council (MEC) computer consortium. This is an association of public school districts within the boundaries of Franklin, Union, Madison, Pickaway, and Fairfield Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of the MEC computer consortium consists of the superintendent, his designee, or a member of the board of education of each participating school district, one representative from each participating school district in Franklin County, and one representative from each county outside Franklin County. During fiscal year 2005, the School District paid \$44,785 to MEC for various services. Financial information for both the purchasing cooperative and computer consortium can be obtained from Elmo Kallner, who serves as Director, 2100 Citygate Drive, Columbus, Ohio 43219.

**B. Tri-Rivers Joint Vocational School**

The Tri-Rivers Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education. The JVS operates under the direction of a Board consisting of one representative from each of the ten participating school districts' Board of Education. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from Terril Martin, who serves as Treasurer, 2222 Marion Mt. Gilead Road, Marion, Ohio 43302.

**C. Central Ohio Regional Professional Development Center**

The Central Ohio Regional Professional Development Center (Center) is a jointly governed organization among the school districts in Delaware, Licking, Franklin, Madison, Pickaway, and Union Counties. The center was formed to advance the State Board of Education's mission that all students can learn by creating a high performance system of education. The Center's purpose is to provide long-term ongoing meaningful professional development for all educators and school support personnel. The Center is governed by a twenty-two member Board made up of representatives from the participating school districts, the business community, and three institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Southwestern City School District, 2975 Kingston Avenue, Grove City, Ohio 43123.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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**Note 21 - Jointly Governed Organizations** (continued)

**D. Central Ohio Special Education Regional Resource Center**

The Central Ohio Special Education Regional Resource Center (SERRC) is a jointly governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a one hundred five member board including the superintendent from the eighty-nine participating school districts, two representatives from a non-public school, six representatives from participating educational service centers, two representatives from the Department of Youth Services, five representatives from special education facilities, and one parent of children with disabilities. The degree of control exercised by any participating educational entity is limited to its representative on the Board. Financial information can be obtained from Central Ohio Special Education Regional Resource Center, 470 Glenmont Avenue, Columbus, Ohio 43214.

**Note 22 - Insurance Pools**

**A. Ohio School Plan**

The School District participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum- Shuett Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum- Shuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum- Shuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

**B. Ohio School Boards Association Workers' Compensation Group Rating Plan**

The School District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as 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 GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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**Note 22 - Insurance Pools** (continued)

**C. Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust**

The Champaign, Delaware, Marion, Union School Employee Welfare Benefit Association Trust (Trust), is a public entity shared risk pool consisting of eight school districts and the Madison/Champaign County and Delaware/Union County Educational Service Centers. The Trust is organized as a Voluntary Employee Benefit association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and life insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of monthly premiums. Financial information can be obtained from Rebecca McMillen, who serves as Director, Huntington Center HC1142, Columbus, Ohio, 43287.

**Note 23 - Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

**B. Litigation**

The School District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The School District's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material adverse effect, if any, on the financial condition of the School District.

**Note 24 - Subsequent Event**

In November 2005, the voters approved a 5.8 mill emergency operating levy for five years. The tax will generate approximately \$680,000 per year.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2005**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Disburse- ments</b>	<b>Non-Cash Disburse- ments</b>
<b><u>UNITED STATES DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Union County Farm Service Agency</i>						
Production Flexibility Payments for Contract Commodities	N/A	10.055	\$ 208	\$ -	\$ 208	\$ -
<i>Passed Through the Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	-	19,130	-	19,130
National School Lunch Program	050336-LLP4-04/05	10.555	115,119	-	115,119	-
Total Nutrition Cluster			115,119	19,130	115,119	19,130
Total U.S. Department of Agriculture			<b>115,327</b>	<b>19,130</b>	<b>115,327</b>	<b>19,130</b>
<b><u>UNITED STATES DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	050336-6BSF-2004	84.027	3,805	-	10,123	-
	050336-6BSF-2005		216,925	-	207,140	-
			220,730	-	217,263	-
Special Education - Preschool Grant	050336-PGS1-2005	84.173	6,887	-	6,887	-
Total Special Education Cluster			227,617	-	224,150	-
Title I Grants to Local Educational Agencies	050336-C1S1-2004	84.010	3,765	-	19,828	-
	050336-C1S1-2005		216,767	-	216,380	-
			220,532	-	236,208	-
Innovative Educational Program Strategies	050336-C2S1-2004	84.298	377	-	377	-
	050336-C2S1-2005		5,825	-	5,783	-
			6,202	-	6,160	-
Safe and Drug Free School Grants	050336-DRS1-2004	84.186	1,890	-	1,890	-
	050336-DRS1-2005		7,224	-	7,224	-
			9,114	-	9,114	-
Improving Teacher Quality	050336-TRS1-2004	84.367	7,833	-	9,183	-
	050336-TRS1-2005		71,223	-	67,100	-
			79,056	-	76,283	-
Technology Literacy Challenge Grant	050336-TJS1-2005	84.318	5,995	-	5,795	-
Total U.S. Department of Education			<b>548,516</b>	<b>0</b>	<b>557,710</b>	<b>0</b>
<b><u>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed Through the Ohio Department of MRDD</i>						
Medical Assistance Program	31-0677254	93.778	10,333	-	10,333	-
<b><u>UNITED STATES DEPARTMENT OF HOMELAND SECURITY</u></b>						
<i>Passed Through the Ohio Department of Public Safety</i>						
Emergency Management Agency						
Public Assistance Grant - FEMA	159-UVZ33-00	97.036	4,690	-	4,690	-
<b>TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES</b>			<b>\$678,866</b>	<b>\$19,130</b>	<b>\$688,060</b>	<b>\$19,130</b>

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FISCAL YEAR ENDED 6/30/05**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

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



**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**

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Union Local School District, Union County, Ohio (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 20, 2006. 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 District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated January 20, 2006, we reported other matters involving the internal control over financial reporting which we did not deem reportable conditions.

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### **Compliance and Other Matters**

As part of reasonably assuring whether the 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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-002. In a separate letter to the District's management dated January 20, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of 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

January 20, 2006





## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of North Union Local School District, Union County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The 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 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 District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the North Union Local 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, 2005.

#### Internal Control Over Compliance

The 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 District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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**Internal Control Over Compliance  
(Continued)**

We noted a certain matter involving the internal control over compliance and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not believe the reportable condition described above is a material weakness.

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



**Betty Montgomery**  
Auditor of State

January 20, 2006

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

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

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2005-001</b>
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The District did not convert from the Ohio School Payroll System (OSPS) to the Uniform Staff Payroll System (USPS) application prior to the audit period beginning July 1, 2004. The District's conversion was effective January 1, 2005. There were no controls in place to restrict programmer access to the program files or to detect changes to the program files for OSPS. These deficiencies could result in errors or omissions to occur and go undetected by management. As a result, procedures were performed to ensure the accuracy and completeness of payroll expenditures.

We recommend management be involved in monitoring changes/upgrades to existing applications or systems to ensure they operate as intended.

<b>Finding Number</b>	<b>2005-002</b>
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**Finding For Recovery – Repaid Under Audit  
Art Club Fundraiser**

During fiscal year 2005, the Art Club, under the supervision of Paige Bayer, held a fundraiser, selling candy bars, to support additional art activities. Review of the Sales Project Potential form and related supporting documentation for this project indicated that the sales from this fundraiser were projected to total \$2,496. Receipt documentation, however, only supported \$1,907 in revenue, leaving an amount of \$589 uncollected by the District.

In accordance with the forgoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money due but not collected is hereby issued against Paige Bayer in the amount of five hundred eighty-nine dollars and in favor of the North Union Local School District Art Club Agency Fund.

Ms. Bayer paid \$589 to the District on November 3, 2005.

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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CFDA Title and Number	Title 1 – Grants to Local Educational Agencies, #84.010
Federal Award Number / Year	050336-C1S1-2004/2005
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Please refer to Finding 2005-001



**Auditor of State  
Betty Montgomery**

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**NORTH UNION LOCAL SCHOOL DISTRICT**

**UNION COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 16, 2006**