



**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  
401 North Franklin Street  
Richwood, Ohio 43344-1032

To the Board of Education:

We have audited the accompanying general purpose financial statements of the North Union Local School District, Union County, Ohio, (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the North Union Local School District, Union County, Ohio as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type 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 November 21, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The accompanying 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 general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general purpose 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**

November 21, 2003

**North Union Local School District  
Combined Balance Sheet  
All Fund Types and Account Groups  
June 30, 2003**

	Governmental Fund Types				Proprietary	Fiduciary	Account Groups		Totals
	Special	Debt	Capital	Enterprise	Trust and	General	General	(Memorandum)	
	General	Revenue	Service		Project	Agency	Fixed Assets		Long Term Debt
<b>Assets and Other Debits:</b>									
Equity in Pooled Cash and Cash Equivalents	\$6,560,732	108,109	31,742	12,754,747	15,672	201,980	0	0	\$19,672,982
Cash with Fiscal Agent	0	0	16,484	0	0	0	0	0	16,484
Restricted Assets: Equity in Pooled Cash	21,464	0	0	0	0	0	0	0	21,464
Taxes Receivables	3,330,477	0	729,298	163,900	0	0	0	0	4,223,675
Interfund Receivables	28,500	0	0	0	0	0	0	0	28,500
Intergovernmental Receivables	9,426	40,726	0	0	0	0	0	0	50,152
Due from Other Funds	0	0	0	0	0	3,462	0	0	3,462
Accounts Receivable	6,617	548	0	0	1,178	14	0	0	8,357
Inventory	0	0	0	0	2,445	0	0	0	2,445
Inventory for Resale	0	0	0	0	9,771	0	0	0	9,771
Net Property, Plant, and Equipment	0	0	0	0	106,923	0	9,606,971	0	9,713,894
Amount to be Provided for Retirement of General Long Term Debt	0	0	0	0	0	0	0	13,955,446	13,955,446
<b>Total Assets and Other Debits</b>	<b>\$9,957,216</b>	<b>149,383</b>	<b>777,524</b>	<b>12,918,647</b>	<b>135,989</b>	<b>205,456</b>	<b>9,606,971</b>	<b>13,955,446</b>	<b>\$47,706,632</b>

See Accompanying Notes to the General Purpose Financial Statements.

(Continued)

**North Union Local School District  
Combined Balance Sheet  
All Fund Types and Account Groups, Continued  
June 30, 2003**

	Governmental Fund Types			Proprietary	Fiduciary	Account Groups		Totals	
	Special	Debt	Capital	Fund Type	Fund Type	General	General	2003	
	General	Revenue	Service	Project	Enterprise	Agency	Fixed Assets	Long Term Debt	(Memorandum)
<b>Liabilities:</b>									
Interfund Payables	\$0	0	0	0	28,000	500	0	0	\$28,500
Due to Other Funds	3,217	159	0	0	86	0	0	0	3,462
Intergovernmental Payables	135,083	4,884	0	0	31,967	63,849	0	85,085	320,868
Accounts Payable	104,547	2,879	0	859,781	974	3,375	0	0	971,556
Matured Bonds Payable	0	0	16,484	0	0	0	0	0	16,484
Accrued Salaries and Benefits	899,561	42,826	0	0	23,903	0	0	0	966,290
Deferred Revenue	2,726,784	0	672,948	160,474	0	0	0	0	3,560,206
Due to Others	0	0	0	0	0	71,258	0	0	71,258
Bonds Payable	0	0	0	0	0	0	0	12,999,989	12,999,989
Loans Payable	0	0	0	0	0	0	0	425,000	425,000
Compensated Absences Payable	18,648	0	0	0	3,574	0	0	445,372	467,594
<b>Total Liabilities</b>	<b>3,887,840</b>	<b>50,748</b>	<b>689,432</b>	<b>1,020,255</b>	<b>88,504</b>	<b>138,982</b>	<b>0</b>	<b>13,955,446</b>	<b>19,831,207</b>
<b>Fund Equity and Other Credits:</b>									
Investment in General Fixed Assets	0	0	0	0	0	0	9,606,971	0	9,606,571
Retained Earnings	0	0	0	0	47,485	0	0	0	47,485
<b>Fund Balances:</b>									
Reserved for Budget Stabilization	21,464	0	0	0	0	0	0	0	21,464
Reserved for Encumbrances	577,657	16,480	0	8,126,825	0	0	0	0	8,720,962
Reserved for Future Appropriations	200,591	0	56,350	3,426	0	0	0	0	260,367
Unreserved Fund Balance	5,269,664	82,155	31,742	3,768,141	0	66,474	0	0	9,218,176
<b>Total Fund Balances</b>	<b>6,069,376</b>	<b>98,635</b>	<b>88,092</b>	<b>11,898,392</b>	<b>0</b>	<b>66,474</b>	<b>0</b>	<b>0</b>	<b>18,220,969</b>
<b>Total Fund Balances/Retained Earnings and Other Credits</b>	<b>6,069,376</b>	<b>98,635</b>	<b>88,092</b>	<b>11,898,392</b>	<b>47,485</b>	<b>66,474</b>	<b>9,606,971</b>	<b>0</b>	<b>27,875,425</b>
<b>Total Liabilities, Fund Equity, and Other Credits</b>	<b>\$9,957,216</b>	<b>149,383</b>	<b>777,524</b>	<b>12,918,647</b>	<b>135,989</b>	<b>205,456</b>	<b>9,606,971</b>	<b>13,955,446</b>	<b>\$47,706,632</b>

See Accompanying Notes to the General Purpose Financial Statements.

**North Union Local School District**  
**Combined Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**All Governmental Fund Types and Similar Fiduciary Fund Type**  
**Year Ended June 30, 2003**

	General	Governmental Fund Types Special Revenue	Debt Service	Capital Projects	Fiduciary Fund Type Expendable Trust	Totals (Memorandum) (Only)
<b>REVENUES:</b>						
Revenue from Local Sources						
Taxes	\$4,109,800	28,163	452,699	101,273	0	\$4,691,935
Tuition	19,474	0	0	0	0	19,474
Earnings on Investments	187,079	0	0	212,361	94	399,534
Extracurricular Activities	0	123,935	0	0	0	123,935
Miscellaneous	6,490	8,989	0	0	11,993	27,472
Revenue from Intermediate Sources						
Unrestricted Grants-in-Aid	0	0	0	0	0	0
Revenue from State Sources						
Unrestricted Grants-in-Aid	5,544,950	4,441	46,828	15,202	0	5,611,421
Restricted Grants-in-Aid	332,443	65,577	0	0	0	397,020
Revenue from Federal Sources						
Restricted Grants-in-Aid	0	395,668	0	0	0	395,668
<b>Total Revenue</b>	<b>10,200,236</b>	<b>625,773</b>	<b>499,527</b>	<b>328,836</b>	<b>12,087</b>	<b>11,666,459</b>
<b>EXPENDITURES:</b>						
Instruction						
Regular Instruction	4,205,749	73,939	0	1,458	0	4,281,146
Special Instruction	880,593	336,248	0	0	0	1,216,841
Vocational Instruction	439,913	0	0	1,063	0	440,976
Other Instruction	300,175	0	0	0	0	300,175
Supporting Services						
Supporting Services-Pupils	267,411	7,005	0	0	0	274,416
Supporting Services-Instructional Staff	493,568	63,782	0	0	0	557,350
Supporting Services-Board of Education	67,963	0	0	0	0	67,963
Supporting Services-Administration	841,700	108	1,516	257	5,542	849,279
Fiscal Services	371,900	480	6,758	1,960	0	381,098
Operation & Maintenance-Plant	1,013,137	0	0	10,560	0	1,023,697
Supporting Services-Pupil Transportation	640,137	0	0	0	0	640,137
Supporting Services-Central	2,710	17,499	0	0	0	20,209
Extracurricular Activities						
Academic & Subject Oriented	17,121	678	0	0	2,987	20,786
Occupation Oriented Act.	0	720	0	0	0	720
Sports Oriented	173,932	95,115	0	0	0	269,047
Capital Outlay						
Architecture & Engineering	0	0	0	483,213	0	483,213
Other Facility Acquisition & Construction	104,447	0	0	1,409,623	0	1,514,070
Debt Service						
Principal	0	0	13,000,000	40,000	0	13,040,000
Interest	0	0	536,217	28,703	0	564,920
<b>Total Expenditures</b>	<b>9,820,456</b>	<b>595,574</b>	<b>13,544,491</b>	<b>1,976,837</b>	<b>8,529</b>	<b>25,945,887</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	379,780	30,199	(13,044,964)	(1,648,001)	3,558	(14,279,428)
Other Financing Sources and Uses:						
Proceeds from Sale of Bonds	0	0	13,125,261	0	0	13,125,261
Proceeds from Sale of Assets	0	0	1,285	0	0	1,285
Transfers-In	0	0	0	100,000	0	100,000
Transfers-Out	(100,000)	0	0	0	0	(100,000)
<b>Net Other Financing Sources and Uses</b>	<b>(100,000)</b>	<b>0</b>	<b>13,126,546</b>	<b>100,000</b>	<b>0</b>	<b>13,126,546</b>
Excess (Deficiency) of Revenue Receipts and Other Sources Over (Under) Expenditure Disbursement and Other Uses	279,780	30,199	81,582	(1,548,001)	3,558	(1,152,882)
Beginning Fund Balance	5,789,596	68,436	6,510	13,446,393	62,916	19,373,851
Ending Fund Balance	\$6,069,376	98,635	88,092	11,898,392	66,474	\$18,220,969

See Accompanying Notes to the General Purpose Financial Statements.

**North Union Local School District**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual (Non-GAAP Basis)**  
**All Governmental Fund Types and Similar Fiduciary Fund Type**  
**Year Ended June 30, 2003**

	General Fund			Special Revenue Funds		
	Revised		Variance	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$3,778,399	4,328,043	549,644	32,726	28,163	\$(4,563)
Tuition	3,012	3,450	438	0	0	0
Earnings on Investment	163,391	187,159	23,768	0	0	0
Extracurricular Activities	0	0	0	146,620	126,175	(20,445)
Miscellaneous	5,744	6,580	836	10,446	8,989	(1,457)
Local Unrestricted Grants-in-Aid	0	0	0	0	0	0
State Unrestricted Grants-in-Aid	4,999,481	5,726,756	727,275	4,700	4,045	(655)
State Restricted Grants-in-Aid	290,224	332,443	42,219	57,235	49,254	(7,981)
Federal Restricted Grants-in-Aid	0	0	0	430,719	370,660	(60,059)
<b>Total Revenue</b>	<b>9,240,251</b>	<b>10,584,431</b>	<b>1,344,180</b>	<b>682,446</b>	<b>587,286</b>	<b>(95,160)</b>
<b>Expenditures:</b>						
Regular Instruction	4,365,954	4,364,789	1,165	87,069	95,364	(8,295)
Special Instruction	918,478	918,478	0	366,113	322,563	43,550
Vocational Instruction	445,943	445,897	46	0	0	0
Other Instruction	300,175	300,175	0	0	0	0
Support Services-Pupils	277,890	277,890	0	7,890	7,505	385
Support Services-Instructional Staff	488,240	488,237	3	73,624	67,328	6,296
Support Services-Board of Education	99,167	99,167	0	0	0	0
Support Services-Administration	874,188	874,043	145	108	108	0
Fiscal Services	439,707	439,485	222	480	480	0
Operation & Maintenance-Plant	1,239,080	1,239,056	24	0	0	0
Support Services-Transportation	678,190	678,190	0	0	0	0
Support Services-Central	2,711	2,711	0	22,910	17,500	5,410
Academic & Subject Oriented	18,448	18,448	0	839	882	(43)
Occupation Oriented Act.	0	0	0	720	720	0
Sports Oriented Activity	163,568	163,568	0	93,755	103,624	(9,869)
Architecture & Engineering	0	0	0	0	0	0
Facilities Acquisition & Construction	104,447	104,447	0	0	0	0
Repayment of Debt (Principal and Interest)	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>10,416,186</b>	<b>10,414,581</b>	<b>1,605</b>	<b>653,508</b>	<b>616,074</b>	<b>37,434</b>
Excess of Revenue Over (Under) Expenditures	(1,175,935)	169,850	1,345,785	28,938	(28,788)	(57,726)
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Bonds	0	0	0	0	0	0
Proceeds from Sale of Notes	0	0	0	0	0	0
Transfers-In	0	0	0	0	0	0
Advances-In	500	500	0	0	0	0
Transfers-Out	(100,000)	(100,000)	0	0	0	0
Advances-Out	(28,500)	(28,500)	0	0	0	0
<b>Total Other Sources (Uses)</b>	<b>(128,000)</b>	<b>(128,000)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,303,935)	41,850	1,345,785	28,938	(28,788)	(57,726)
Beginning Fund Balance	5,239,203	5,239,203	--	84,896	84,896	--
Prior Year Carry Over Encumbrances	600,787	600,787	--	32,854	32,854	--
<b>Ending Fund Balance</b>	<b>\$4,536,055</b>	<b>5,881,840</b>	<b>1,345,785</b>	<b>146,688</b>	<b>88,962</b>	<b>\$(57,726)</b>

See Accompanying Notes to the General Purpose Financial Statements.

(Continued)

**North Union Local School District**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual (Non-GAAP Basis)**  
**All Governmental Fund Types and Similar Fiduciary Fund Type – Continued**  
**Year Ended June 30, 2003**

	Debt Service Funds			Capital Service Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$396,349	396,349	0	121,935	112,970	\$(8,965)
Tuition	0	0	0	0	0	0
Earnings on Investment	0	0	0	231,571	214,546	(17,025)
Extracurricular Activities	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Local Unrestricted Grants-in-Aid	0	0	0	0	0	0
State Unrestricted Grants-in-Aid	46,828	46,828	0	23,562	21,830	(1,732)
State Restricted Grants-in-Aid	0	0	0	0	0	0
Federal Restricted Grants-in-Aid	0	0	0	0	0	0
<b>Total Revenue</b>	<b>443,177</b>	<b>443,177</b>	<b>0</b>	<b>377,068</b>	<b>349,346</b>	<b>(27,722)</b>
<b>Expenditures:</b>						
Regular Instruction	0	0	0	12,990	12,990	0
Special Instruction	0	0	0	0	0	0
Vocational Instruction	0	0	0	2,390	1,293	1,097
Other Instruction	0	0	0	0	0	0
Support Services-Pupils	0	0	0	0	0	0
Support Services-Instructional Staff	0	0	0	0	0	0
Support Services-Board of Education	0	0	0	0	0	0
Support Services-Administration	1,516	1,516	0	257	257	0
Fiscal Services	6,758	6,758	0	1,973	1,973	0
Operation & Maintenance-Plant	0	0	0	10,560	10,560	0
Support Services-Transportation	0	0	0	0	0	0
Support Services-Central	0	0	0	0	0	0
Academic & Subject Oriented	0	0	0	0	0	0
Occupation Oriented Act.	0	0	0	0	0	0
Sports Oriented Activity	0	0	0	0	0	0
Architecture & Engineering	0	0	0	779,955	779,955	0
Facilities Acquisition & Construction	0	0	0	9,239,697	9,239,697	0
Repayment of Debt (Principal and Interest)	13,536,217	13,536,217	0	68,703	68,703	0
<b>Total Expenditures</b>	<b>13,544,491</b>	<b>13,544,491</b>	<b>0</b>	<b>10,116,525</b>	<b>10,115,428</b>	<b>1,097</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(13,101,314)</b>	<b>(13,101,314)</b>	<b>0</b>	<b>(9,739,457)</b>	<b>(9,766,082)</b>	<b>(26,652)</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Bonds	13,125,261	13,125,261	0	0	0	0
Proceeds from Sale of Assets	1,285	1,285	0	0	0	0
Transfers-In	0	0	0	0	100,000	100,000
Advances-In	0	0	0	0	0	0
Transfers-Out	0	0	0	0	0	0
Advances-Out	0	0	0	0	0	0
<b>Total Other Sources (Uses)</b>	<b>13,126,546</b>	<b>13,126,546</b>	<b>0</b>	<b>0</b>	<b>100,000</b>	<b>100,000</b>
<b>Excess of Revenues &amp; Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>25,232</b>	<b>25,232</b>	<b>0</b>	<b>(9,739,457)</b>	<b>(9,666,082)</b>	<b>73,375</b>
Beginning Fund Balance	6,510	6,510	--	13,395,785	13,395,785	--
Prior Year Carry Over Encumbrances	0	0	--	38,448	38,448	--
<b>Ending Fund Balance</b>	<b>\$31,742</b>	<b>31,742</b>	<b>0</b>	<b>3,694,776</b>	<b>3,768,151</b>	<b>\$73,375</b>

See Accompanying Notes to the General Purpose Financial Statements.

(Continued)

**North Union Local School District**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual (Non-GAAP Basis)**  
**All Governmental Fund Types and Similar Fiduciary Fund Type - Continued**  
**Year Ended June 30, 2003**

	Expendable Trust Funds			Totals (Memorandum Only)		
	Revised		Variance	Revised		Variance
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$0	0	0	4,329,409	4,865,525	\$536,116
Tuition	0	0	0	3,012	3,450	438
Earnings on Investment	62	94	32	395,024	401,799	6,990
Extracurricular Activities	0	0	0	146,620	126,175	(20,445)
Miscellaneous	7,837	11,993	4,156	24,027	27,562	3,535
Local Unrestricted Grants-in Aid	0	0	0	0	0	0
State Unrestricted Grants-in-Aid	0	0	0	5,074,571	5,799,459	724,888
State Restricted Grants-in-Aid	0	0	0	347,459	381,697	34,238
Federal Restricted Grants-in-Aid	0	0	0	430,719	370,660	(60,059)
<b>Total Revenue</b>	<b>7,899</b>	<b>12,087</b>	<b>4,188</b>	<b>10,750,841</b>	<b>11,976,327</b>	<b>1,225,486</b>
<b>Expenditures:</b>						
Regular Instruction	0	0	0	4,466,013	4,473,143	(7,130)
Special Instruction	0	0	0	1,284,591	1,241,041	43,550
Vocational Instruction	0	0	0	448,333	447,190	1,143
Other Instruction	0	0	0	300,175	300,175	0
Support Services-Pupils	0	0	0	285,780	285,395	385
Support Services-Instructional Staff	0	0	0	561,864	555,565	6,299
Support Services-Board of Education	0	0	0	99,167	99,167	0
Support Services-Administration	5,541	5,541	0	881,610	881,465	145
Fiscal Services	0	0	0	448,918	448,696	222
Operation & Maintenance-Plant	0	0	0	1,249,640	1,249,616	24
Support Services-Transportation	0	0	0	678,190	678,190	0
Support Services-Central	0	0	0	25,621	20,211	5,410
Academic & Subject Oriented	2,987	2,987	0	22,274	22,317	(43)
Occupation Oriented Act.	0	0	0	720	720	0
Sports Oriented Activity	0	0	0	257,323	267,192	(9,869)
Architecture & Engineering	0	0	0	779,955	779,955	0
Facilities Acquisition & Construction	0	0	0	9,344,144	9,344,144	0
Repayment of Debt (Principal and Interest)	0	0	0	13,604,920	13,604,920	0
<b>Total Expenditures</b>	<b>8,528</b>	<b>8,528</b>	<b>0</b>	<b>34,739,238</b>	<b>34,699,102</b>	<b>40,136</b>
Excess of Revenue Over (Under) Expenditures	(629)	3,559	4,188	(23,988,397)	(22,722,775)	1,265,622
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Bonds	0	0	0	13,125,261	13,125,261	0
Proceeds from Sale of Assets	0	0	0	1,285	1,285	0
Transfers-In	0	0	0	0	100,000	100,000
Advances-In	0	500	500	500	1,000	500
Transfers-Out	0	0	0	(100,000)	(100,000)	0
Advances-Out	(500)	(500)	0	(29,000)	(29,000)	0
<b>Total Other Sources (Uses)</b>	<b>(500)</b>	<b>0</b>	<b>500</b>	<b>12,998,046</b>	<b>13,098,546</b>	<b>100,500</b>
<b>Excess of Revenues &amp; Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>						
Beginning Fund Balance	63,415	63,415	--	18,789,809	18,789,809	--
Prior Year Carry Over Encumbrances	0	0	--	672,089	672,089	--
<b>Ending Fund Balance</b>	<b>\$62,286</b>	<b>66,974</b>	<b>4,688</b>	<b>8,471,547</b>	<b>9,837,669</b>	<b>\$1,366,122</b>

See Accompanying Notes to the General Purpose Financial Statements.

**North Union Local School District**  
**Combined Statement of Revenues, Expenses, and Changes in Retained Earnings**  
**Proprietary Fund Type**  
**Year Ended June 30, 2003**

	Enterprise Funds
Operating Revenues:	
Food Service	\$317,676
Miscellaneous	40,237
Total Operating Revenue	357,913
Operating Expenses:	
Personal Services - Salaries	188,623
Employee Benefits	79,266
Purchased Services	10,053
Supplies and Materials	279,794
Other Expenses	1,443
Depreciation	2,289
Total Operating Expenses	561,468
Operating Loss	(203,555)
Non-Operating Revenues:	
Earnings on Investments	435
State Unrestricted Grants-in-Aid	3,629
Federal Unrestricted Grants-in-Aid	87,025
Federal Restricted Grants-in-Aid	70,057
Total Non-Operating Revenue	161,146
Non-Operating Expenses	
Loss on Disposal of Assets	(476)
Total Non-Operating Expenses	(476)
Net Loss	(42,885)
Beginning Retained Earnings	90,370
Retained Earnings at End of Year	\$47,485

See Accompanying Notes to the General Purpose Financial Statements.

**North Union Local School District  
 Combined Statement of Cash Flows  
 Proprietary Fund Type  
 Year Ended June 30, 2003**

	<u>Enterprise Funds</u>
Cash Flows from Operating Activities	
Operating Loss	\$(203,555)
Adjustments to Reconcile Operating Loss to Net Cash provided by Operating Activities:	
Depreciation	2,289
Net (Increase) Decrease in Assets:	
Accounts Receivable	(1,126)
Inventory	4,466
Net Increase (Decrease) in Liabilities:	
Interfund Payable	28,000
Due to Other Funds	(20)
Intergovernmental Payable	5,334
Accounts Payable	603
Accrued Wages and Benefits	(7,083)
Deferred Revenue	(1,795)
Compensated Absences	1,559
Net Adjustments	<u>32,227</u>
Net Cash Used in Operating Activities	(171,328)
Cash Flows from Noncapital Financing Activities:	
Grants from State Sources	3,629
Grants from Federal Sources	<u>157,082</u>
Net Cash Provided by Noncapital Financing Sources	160,711
Cash Flow from Capital Financing Sources:	
Acquisition of Capital Assets	<u>(2,234)</u>
Net Cash Provided by Capital Financing sources	<u>(2,234)</u>
Cash Flow from Investing Activities:	
Earnings on Investments	<u>435</u>
Net Decrease in Cash & Cash Equivalents	(12,416)
Cash and Cash Equivalents at Beginning of Year	<u>28,088</u>
Cash and Cash Equivalents at End of Year	<u><u>\$15,672</u></u>
See Accompanying Notes to General Purpose Financial Statements.	

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the district.

Average daily membership (ADM) as of October 1, 2002, was 1453. The District employed 103 certified employees and 67 classified employees. The District is supervised by the Delaware/Union County Board of Education, a separate entity.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

The accompanying general purpose financial statements comply with the provision of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities, and functions for which the district is financially accountable. This report includes all activities considered by management to be part of the school by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Management believes the financial statements included in this report represent all of the funds of the District over which the board of education is financially accountable.

**B. Fund Accounting**

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

General Fund - This 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 District for any purpose provided it is expended or transferred according to the bylaws of the District and the laws of the State of Ohio.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

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

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital assets or facilities (other than those financed by proprietary funds).

Proprietary Fund Type

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following is the District's proprietary fund type:

Enterprise Funds - These funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Fund Accounting (Continued)**

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary fund types are:

Expendable Trust Funds - These funds account for resources, including both principal and earnings, which must be expended according to the provision of a trust agreement. Expendable trust funds are accounted for in essentially the same manner as governmental funds.

Agency Funds - These funds are purely custodial and thus do not involve measurement of results of operations.

Account Groups

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds (i.e., governmental funds only) because they do not affect expendable available financial resources. The following are the District's account groups:

General Fixed Assets Account Group - This account group is used to account for all of the District's fixed assets other than those accounted for in the Proprietary funds.

General Long-Term Obligations Account Group - This account group is used to account for all of the District's long-term obligations other than those accounted for in the Proprietary Funds.

**C. Measurement Focus/Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust 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. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for all Governmental Fund Types, Expendable Trust and Agency Funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. Grants and entitlements must also meet timing, eligibility, and contingency requirements.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus/Basis of Accounting (Continued)**

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: investment earnings, tuition, grants, entitlements, and accounts (student fees and rent).

The District reports deferred revenues of governmental funds on its combined balance sheet when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received before the occurrence of qualifying expenditures. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2003, which are not intended to finance fiscal year 2003 operations, have been recorded as deferred revenue.

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. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year, and the costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocation of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized when they are earned and become measurable, and expenses are recognized when they are incurred, if measurable.

**D. Budget and Budgetary Accounting**

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

Tax Budget - Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Union County Budget Commission for rate determination.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budget and Budgetary Accounting (Continued)**

Estimated Resources - Prior to March 15, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts in the final Amended Certificate issued during fiscal year 2003.

Appropriations - Upon receipt from the County Auditor of an Amended Certificate of Estimated Resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenditures of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations with functions, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations.

Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances - As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

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

**E. Cash and Investments**

Cash received by the District is pooled in a central bank account with individual fund balance integrity maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents." During the fiscal year all investments were limited to certificates of deposit, and the State Treasury Asset Reserve of Ohio (STAR Ohio).

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Cash and Investments (Continued)**

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in the STAR Ohio during the fiscal year. 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, 2003.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General Fund, amounted to \$187,079, which includes \$112,780 assigned from other funds.

**F. Inventories**

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of the governmental fund type inventories is recorded as an expenditure when purchased (purchase method) rather than when consumed. Reported inventories in these funds are equally offset by a fund balance reserve which indicates they are unavailable for appropriation. Inventories of proprietary funds consist of donated food, purchased food, and supplies, and are expended when used.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

**H. Fixed Assets**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The District does not possess any infrastructure.

The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend asset lives, are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Fixed Assets (Continued)**

Assets in the general fixed assets account group are not depreciated. Depreciation of equipment in the proprietary fund types is computed using the straight-line method over an estimated useful life of five to twenty years.

**I. Intergovernmental Revenues**

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis and entitlements, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants and entitlements for proprietary fund operations are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. Grants and entitlements must also meet timing, eligibility, and contingency requirements.

The District currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program  
School Bus Funding Program

Capital Projects

School Net Funding  
Vocational Education Equipment Assistance Program

Special Revenue Funds

Education Management Information Systems

Non-Reimbursable Grants

Post Secondary Vocational Education  
School Improvement Models  
Ohio Reads  
NDEA Title III  
Title VI-B  
Title I  
Title II  
Title VI-R  
Drug Free Schools  
Preschool Disabilities  
Miscellaneous Federal Grants

Reimbursable Grants

General Fund

School Bus Reimbursement

Special Revenue Funds

Young Farmers

Proprietary Funds

National School Lunch Program  
Special Milk Program  
Government Donated Commodities

Grants and entitlements amounted to approximately 55% of the District's operating revenue during the 2003 fiscal year.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Short-Term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." Short-term Interfund loans are classified as "interfund receivables/payables." At June 30, 2003, the District had \$28,500 in Interfund Receivables/Payables and \$3,462 in Due to/from Other funds.

**K. Advances to Other Funds**

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicated that they do not constitute expendable available financial resources and therefore are not available for appropriation. The District had no long-term interfund loans at June 30, 2003.

**L. Compensated Absences**

The District accounts for compensated absences in accordance with GASB Statement No. 16.

Sick leave and other compensated absences with similar characteristics should be accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations should be reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future should be based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. This method is known as the vesting method.

Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and, 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For governmental funds, the District records a liability for accumulated unused vacation time when earned. The current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term debt account group.

In proprietary funds, compensated absences are expenses when earned. The entire amount of compensated absences is reported as a fund liability.

**M. Contributed Capital**

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. The assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is closed to unreserved retained earnings at year end. At June 30, 2003, the District had no contributed capital.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. Long-Term Obligations**

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

**O. Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. A fund balance reserve has also been established.

**Q. Fund Balance Reserves**

The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available spendable resources and, therefore, are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for encumbrances, budget stabilization and future appropriation of property taxes.

**R. Memorandum Only - Total Columns**

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**S. Estimates**

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis), All Governmental Fund Types and similar Fiduciary Fund Type 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).
4. Proceeds from and principal payment on short-term note obligations are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP basis and budgetary basis statements by fund type:

Excess of Revenues and Other Financing Sources  
Over (Under) Expenditures and Other Financing Uses  
Governmental Fund Types and Similar Fiduciary Fund Types

	<u>Governmental Fund Types</u>				
	General Fund	Special Revenue	Debt Service	Capital Projects	Trust Funds
GAAP Basis	\$279,780	30,199	81,582	(1,548,001)	\$3,558
Encumbrances	(701,342)	(19,149)	0	(8,986,597)	0
Increase (Decrease):					
Due to Revenues:					
Net Adjustments to Revenue Accruals	384,195	(38,487)	(48,219)	20,510	0
Due to Expenditures:					
Net Adjustments to Expenditure Accruals	80,944	(1,351)	0	848,006	1
Due to Other Sources & Uses	(1,727)	0	0	0	0
Budget Basis	\$41,850	(28,788)	25,232	(9,666,082)	\$3,559

**3. LEGAL COMPLIANCE-BUDGETS**

Pursuant to Section 117.11(A) of the Revised Code, State auditors performed tests of compliance with various provisions of local, state and/or federal laws, as appropriate. In the Special Revenue Fund Type, expenditures exceeded appropriations in the regular instruction line item by (\$ 8,295), the sports oriented activity line item by (\$9,869), and the academic and subject oriented line item by (\$43).

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**4. CASH AND INVESTMENTS**

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

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

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

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**4. CASH AND INVESTMENTS (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

**Deposits:** At year end, the carrying amount of the District's deposits was \$11,497,538 and the bank balance was \$12,042,573. \$200,000 of the bank balance was covered Federal Depository Insurance and \$11,842,573 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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

	Category			Carrying	Fair
	1	2	3	Amount	Value
STAR Ohio				8,213,367	8,213,367
Total Investments				<u>\$ 8,213,367</u>	<u>\$ 8,213,367</u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

**NORTH UNION LOCAL SCHOOL DISTRICT  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**4. CASH AND INVESTMENTS (Continued)**

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 19,710,930	\$ 0
Investments:		
STAR Ohio	(8,213,367)	8,213,367
Total	11,497,563	8,213,367
Petty Cash	(25)	
Total Cash and Cash Equivalents	\$ 11,497,538	\$ 8,213,367

**5. PROPERTY TAX AND INCOME TAX**

**Property Tax:** Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1998. Real property taxes are payable annually or semi-annually. If paid annually, payment is due in February. If paid semi-annually, the first payment is due in February, with the remainder payable in July.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are payable annually or semi-annually with the first payment due April 30 and the remainder payable by October.

Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35 percent of market value and personal property is assessed at 100 percent of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Union and Delaware County Treasurers collect property tax on behalf of the District and the Union and Delaware County Auditors remit collected taxes to the District. Tax settlements are made each March and August for real property taxes and each May and October for personal property taxes.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**5. PROPERTY TAX AND INCOME TAX (Continued)**

The full tax rate at the fiscal year ending June 30, 2003, for operations was \$32.75 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the 2003 taxes were collected were as follows:

Real Property-Commercial/Industrial	\$4,720,750
Real Property-Residential/Agricultural	100,295,980
Personal Property-General	2,455,840
Personal Property-Public Utilities	8,335,050
Total Assessed Value	\$115,807,620

**Income Tax:** The District levies a voted tax of 1.0 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**6. RECEIVABLES**

Receivables at June 30, 2003, consisted of taxes, intergovernmental, fees and miscellaneous accounts. 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 guarantee of Federal funds. A summary of intergovernmental receivables at June 30, 2003 follows:

General Fund:	
Tuition	\$9,426
Total General Fund	9,426
Special Revenue Funds:	
Young Farmers Grant	395
Title I Grant	27,881
Title II-A Grant	2,450
Total Special Revenue Funds	40,726
Total Intergovernmental Receivables	\$50,152

**7. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002 (the latest information available), 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$68,830, \$64,117 and \$154,560, respectively; 45.32% has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$37,634 representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds and the general long-term obligations account group.

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That 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 (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance .

For the fiscal year ended June 30, 2003, plan members are required to contribute 9.3 percent of their annual covered salaries. The District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$452,096, \$417,592 and \$608,736, respectively; 84.25% has been contributed for fiscal year 2003, and 100 percent for fiscal years 2002 and 2001. \$71,199 representing the unpaid contribution for fiscal year 2003, is recorded as a liability within the respective funds.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**8. POSTEMPLOYMENT BENEFITS**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. Effective July 1, 2002, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund, a decrease of 3.5 percent for fiscal year 2003. For the District, this amount equaled \$47,589 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002 (the latest information available), employer contributions to fund health care benefits were 5.83 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 2003, the minimum pay has been established at \$14,500. For the District, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$137,552.

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, 2002, (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**9. COMPENSATED ABSENCES**

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

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

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

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

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

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

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

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**9. COMPENSATED ABSENCES (Continued)**

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

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

**10. INTERFUND TRANSACTIONS**

At June 30, 2003, the District had short-term interfund loans which are classified as "interfund receivables/payables." Receivables and payables resulting from goods provided or services rendered are classified as "due from/to other funds." An analysis of interfund balances is as follows:

	Receivables	Payables
General Fund	\$28,500	\$0
Enterprise Funds	0	28,000
Trust / Agency	0	500
	\$28,500	\$28,500
	\$28,500	\$28,500

  

	Due From Other Funds	Due To Other Funds
General Fund	\$0	\$3,217
Special Revenue Funds	0	159
Enterprise Funds	0	86
Agency Funds	3,462	0
	\$3,462	\$3,462
	\$3,462	\$3,462

**11. CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**12. GENERAL LONG-TERM DEBT**

A summary of changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Balance			Balance
	July 1, 2002	Additions	Deletions	June 30, 2003
Intergovernmental Payable	\$77,014	85,085	77,014	\$85,085
Note Payable	13,000,000	0	13,000,000	0
General Obligation Bonds Payable	0	12,999,989	0	12,999,989
Building Loan Payable	465,000	0	40,000	425,000
Compensated Absences Payable	404,256	445,372	404,256	445,372
	<u>\$13,946,270</u>	<u>13,530,446</u>	<u>13,521,270</u>	<u>\$13,955,446</u>

**Building Loan:**

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

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

<u>Building Loan Payment Schedule</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
FY2004	\$40,000	26,122	\$66,122
FY2005	45,000	23,381	68,381
FY2006	50,000	20,317	70,317
FY2007	50,000	17,092	67,092
FY2008 & thereafter	240,000	31,930	271,930
TOTAL	<u>\$425,000</u>	<u>118,842</u>	<u>\$543,842</u>

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**12. GENERAL LONG-TERM DEBT (Continued)**

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

Principal and interest requirements to retire the general obligation bonds at June 30, 2003, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
FY2004	\$115,000	544,517	\$659,517
FY2005	260,000	538,893	798,893
FY2006	350,000	531,317	881,317
FY2007	203,918	521,643	725,561
FY2008 & thereafter	12,071,071	8,381,953	20,453,024
<b>TOTAL</b>	<b>\$12,999,989</b>	<b>10,518,232</b>	<b>\$23,518,312</b>

**Debt Limitations:**

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the District as listed and assessed for taxation, unless approved by the State Superintendent of Instruction. In addition, the unvoted net debt of a school district cannot exceed .1% of the total assessed value of property. The District's unvoted debt limit is \$115,808. The voted debt limit at June 30, 2003 is \$10,422,686.

**13. FIXED ASSETS**

The following is a summary of the proprietary funds property, plant and equipment at June 30, 2003.

Furniture and Equipment	\$225,025
Less Accumulated Depreciation	<u>(118,102)</u>
Net Fixed Assets	<u>\$106,923</u>

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**13. FIXED ASSETS (Continued)**

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 2003:

	General Fixed Assets June 30, 2002	Additions	Deletions	General Fixed Assets June 30, 2003
Land and Improvements	\$309,951	\$248,858	0	\$558,809
Buildings	4,083,992	56,889	0	4,140,881
Furniture and Equipment	3,344,183	238,783	39,525	3,543,441
Construction in Progress	0	308,405	0	308,405
Vehicles	938,978	116,457	0	1,055,435
<b>Total General Fixed Assets</b>	<b>\$8,677,104</b>	<b>969,392</b>	<b>39,525</b>	<b>\$9,606,971</b>

**14. RISK MANAGEMENT**

General Liability:

The District is exposed to various risks of loss related to torts, theft of , damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers. There has been no significant reductions in insurance coverage from the prior year and settlements have not exceeded insurance coverage in any of the past three years.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. Other liability insurance includes \$20,000 for employee liability for three board members; \$40,000 for the president and vice-president of the board; \$100,000 for the superintendent and \$50,000 for the treasurer.

The District maintains replacement cost insurance on buildings and contents in the amount \$23,370,897. Other property insurance includes \$118,898 for musical instruments, and related equipment and accessories.

Workers' Compensation:

The District participates in the Workers' Compensation Program provided by the State of Ohio. The District participates in a Workers' Compensation pool through the Ohio School Board Association for rating program.

Health Insurance:

The District has established limited risk health, dental, and life insurance programs for its employees. The District is a member of the Champaign, Delaware, Marion, and Union County Insurance Consortium.

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**14. RISK MANAGEMENT (Continued)**

CORE Source, a third party administrator, services all claims submitted by employees. An excess coverage insurance policy covers individual claims in excess of \$125,000 and aggregate claims in excess of \$4,292,738.

**15. JOINTLY GOVERNED ORGANIZATIONS**

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

**16. SEGMENTS OF ENTERPRISE ACTIVITIES**

Key financial data for the District's Enterprise Funds for the year ended June 30, 2003, are as follows:

	<u>Lunchroom Fund</u>	<u>Uniform Supply Fund</u>	<u>School Age Child Fund</u>	<u>Total</u>
Operating Revenues	\$323,155	0	34,758	\$357,913
Operating Expenses:				
Depreciation	2,289	0	0	2,289
Other Expenses	524,443	0	34,736	559,179
Total Operating Expenses	<u>526,732</u>	<u>0</u>	<u>34,736</u>	<u>561,468</u>
Operating Income (Loss)	(203,577)	0	22	(203,555)
Non Operating Rev/Exp				
Grants	160,711	0	0	160,711
Loss on Disposal of Assets	(476)	0	0	(476)
Earnings on Investment	435	0	0	435
Net Income (Loss)	<u>\$(42,907)</u>	<u>\$0</u>	<u>\$22</u>	<u>\$(42,885)</u>
Net Working Capital	<u>\$(56,194)</u>	<u>\$8,039</u>	<u>\$6,618</u>	<u>\$(41,537)</u>
Fixed Asset Additions	\$0	\$0	\$0	\$0
Total Assets	<u>\$119,550</u>	<u>\$8,039</u>	<u>\$8,400</u>	<u>\$135,989</u>
Total Fund Equity	<u>\$32,828</u>	<u>\$8,039</u>	<u>\$6,618</u>	<u>\$47,485</u>

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**17. SCHOOL FUNDING DECISION**

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

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

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

**18. FUND DEFICITS**

Fund balances at June 30, 2003, included the following individual deficits:

Title VI Grant	\$(138)
Title I Grant	\$(8,112)
Title VI-R Grant	\$(3,914)
Larue Scholarship Fund	\$(500)

The fund deficits are due primarily to the adjustments for accrued liabilities. The general fund is liable for any deficits in the funds and provides operating transfers when cash is required, not when accruals occur.

**19. Statutory Reserves**

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbook Acquisition	Capital Acquisition	Budget Stabilization	Total
Set aside Cash Balance as of June 30, 2002	\$ (193,769)	0	21,464	\$ (172,305)
Current Year Set-Aside Requirement	248,073	248,073	0	496,146
Qualifying Disbursements	(386,593)	(552,020)	0	(938,613)
Total	<u>\$ (332,289)</u>	<u>(303,947)</u>	<u>21,464</u>	<u>\$ (614,772)</u>
Cash Balance Carried Forward to FY2004	<u>\$ (332,289)</u>	<u>\$ 0</u>	<u>\$ 21,464</u>	
Amount Restricted for Budget Stabilization				<u>\$ 21,464</u>
Total Restricted Assets				<u>\$ 21,464</u>

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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**20. SIGNIFICANT CONSTRUCTION COMMITMENTS**

As of June 30, 2003, the District had the following commitments with respect to capital projects.

Company	Amount Remaining
Marr Knapp Crawfis and Associates	\$ 234,396
Tuttle Construction Co.	4,951,444
Slagel Mechanical	446,228
Vaughn Industries	1,077,858
Area Energy and Electric, Inc	853,516
Vulcan Fire Protection	108,952
Stone Creek Interior Systems	289,918
Louis R. Polster Co.	184,199
R.L Smith Roofing, Inc	593,000

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Union County Farm Service Agency</i>						
Production Flexibility Payments for Contract Commodities	N/A	10.055	\$1,344	\$ -	\$1,344	\$ -
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution	N/A	10.550	-	68,262	-	68,262
National School Lunch	050336-LLP4-02/03	10.555	87,025	-	87,025	-
Total Nutrition Cluster			<u>87,025</u>	<u>68,262</u>	<u>87,025</u>	<u>68,262</u>
Total U.S. Department of Agriculture			<u><b>88,369</b></u>	<u><b>68,262</b></u>	<u><b>88,369</b></u>	<u><b>68,262</b></u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	050336-6BSF-2002	84.027	1,440	-	7,265	-
	050336-6BSF-2003	84.027	128,600	-	120,279	-
			<u>130,040</u>	<u>-</u>	<u>127,544</u>	<u>-</u>
Special Education - Preschool Grant	050336-PGS1-2003	84.173	4,671	-	4,671	-
Total Special Education Cluster			<u>134,711</u>	<u>-</u>	<u>132,215</u>	<u>-</u>
Eisenhower Professional Development State Grants	050336-MSS1-2002	84.281	-	-	2,334	-
GOALS 2000	050336-G2SP-2001	84.276	(116)	-	147	-
Title I Grants to Local Educational Agencies	050336-C1S1-2002	84.010	-	-	10,145	-
	050336-C1S1-2003	84.010	152,112	-	150,174	-
			<u>152,112</u>	<u>-</u>	<u>160,319</u>	<u>-</u>
Innovative Educational Program Strategies	050336-C2S2-2002	84.298	-	-	844	-
	050336-C2S2-2003	84.298	8,085	-	7,883	-
			<u>8,085</u>	<u>-</u>	<u>8,727</u>	<u>-</u>
Safe and Drug Free Schools Grant	050336-DRS1-2002	84.186	-	-	4,288	-
	050336-DRS1-2003	84.186	7,812	-	3,798	-
			<u>7,812</u>	<u>-</u>	<u>8,086</u>	<u>-</u>
Class Size Reduction	050336-CRS1-2002	84.340	5,374	-	13,661	-
	050336-CRS1-2001	84.340	-	-	894	-
			<u>5,374</u>	<u>-</u>	<u>14,555</u>	<u>-</u>
Improving Teacher Quality	050336-TRS1-2003	84.367	57,638	-	56,783	-
Assistive Technology	050336-ATS2-2002	84.352A	6,617	-	3,490	-
Technology Literacy Challenge Grant	050336-TJS1-2003	84.318	4,928	-	3,985	-
	050336-TF52-2001	84.318	-	-	-	-
	050336-TF53-2001	84.318	-	-	6,763	-
			<u>4,928</u>	<u>-</u>	<u>10,748</u>	<u>-</u>
Total U.S Department of Education			<u><b>377,161</b></u>	<u><b>-</b></u>	<u><b>397,404</b></u>	<u><b>-</b></u>
<b>Total Federal Awards</b>			<u><b>\$465,530</b></u>	<u><b>\$68,262</b></u>	<u><b>\$485,773</b></u>	<u><b>\$68,262</b></u>

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

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B—CHILD NUTRITION CLUSTER**

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



**Auditor of State  
Betty Montgomery**

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

North Union Local School District  
Union County  
401 North Franklin Street  
Richwood, Ohio 43344-1032

To The Board of Education:

We have audited the general purpose financial statements of the North Union Local School District, Union County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 21, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the District in a separate letter dated November 21, 2003.

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

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

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

**Betty Montgomery**  
**Auditor of State**

November 21, 2003



## Auditor of State Betty Montgomery

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

North Union Local School District  
Union County  
401 North Franklin Street  
Richwood, Ohio 43344-1032

To the Board of Education:

#### Compliance

We have audited the compliance of the North Union Local School District, Union County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

#### Internal Control Over Compliance

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

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

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

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

**Betty Montgomery**  
**Auditor of State**

November 21, 2003

**NORTH UNION LOCAL SCHOOL DISTRICT  
UNION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

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

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

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800-282-0370  
Facsimile 614-466-4490

**NORTH UNION LOCAL SCHOOL DISTRICT**

**UNION COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 16, 2003**