



**Auditor of State
Betty Montgomery**

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Union Local School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2003, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Union Local School District, Belmont County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2004, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

January 23, 2004

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Union Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of the Union Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2003 are as follows:

- Net assets of governmental activities decreased \$626,536.
- General revenues accounted for \$9,393,089 in revenue or 79 percent of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$2,438,326 or 21 percent of total revenues of \$11,831,415.
- Total assets of governmental activities decreased \$426,487 primarily due to a slight increase in current assets that was offset by depreciation expense.
- The School District had \$12,457,951 in expenses related to governmental activities; only \$2,438,326 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues of \$9,393,089 provided for most of these activities.
- The general fund, one of the major funds had \$9,645,719 in revenues and \$9,931,010 in expenditures. The general fund's balance decreased \$288,373.
- The debt service fund, one of the major funds, had \$336,259 in revenues and \$277,513 in expenditures. The debt service fund balance increased \$58,746.
- The facilities construction capital projects fund, the remaining major fund, had \$85,587 in revenues and \$60,273 in expenditures. The fund balance increased \$25,314.

Using this Annual Financial Report

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

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

Union Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District's activities are all considered to be Governmental Activities.

- Governmental Activities – All of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, debt service fund and facilities construction capital projects fund.

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

Union Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

Table 1
Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and Other Assets	\$3,938,820	\$3,745,699
Capital Assets	15,259,710	15,879,318
Total Assets	19,198,530	19,625,017
Liabilities		
Long-Term Liabilities	3,928,227	3,856,933
Other Liabilities	3,850,394	3,721,639
Total Liabilities	7,778,621	7,578,572
Net Assets		
Invested in Capital Assets		
Net of Debt	12,194,710	12,729,318
Restricted	785,865	549,731
Unrestricted (Deficit)	(1,560,666)	(1,232,604)
Total Net Assets	\$11,419,909	\$12,046,445

Total assets decreased \$426,487. The majority of the decrease was due to depreciation expense of \$619,608.

Total liabilities increased \$200,049. General Obligation Bonds Payable decreased \$85,000. Contracts payable decreased \$46,192. This decrease was offset by increases in accounts payable, accrued wages and benefits, intergovernmental payables, deferred revenues and other liabilities.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003. Since this is the first year Union Local School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Union Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2
Changes in Net Assets

	Governmental Activities
	2003
Revenues	
Program Revenues:	
Charges for Services	\$365,584
Operating Grants	1,726,518
Capital Grants	346,224
Total Program Revenues	2,438,326
General Revenues:	
Property Taxes	2,194,863
Grants and Entitlements	7,146,904
Others	51,322
Total General Revenues	9,393,089
<hr/>	
Total Revenues	11,831,415
<hr/>	
Program Expenses:	
Instruction:	
Regular	5,836,433
Special	1,298,194
Vocational	251,148
Support Services:	
Pupil	464,335
Instructional Staff	552,741
Board of Education, Administration and Fiscal	983,711
Operation and Maintenance of Plant	1,326,127
Pupil Transportation	692,778
Central	13,217
Food Service Operations	548,862
Extracurricular Activities	305,701
Interest and Fiscal Charges	184,704
<hr/>	
Total Expenses	12,457,951
<hr/>	
Change in Net Assets	(\$626,536)

Union Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District is currently experiencing financial hardships. The Board of Education is aware of this and is in the process of identifying areas where costs can be reduced.

The School District has not passed an operating levy since 1976. Even with the addition of Parity Aid, which is not fully phased in, the operating costs of the School District have exceeded the amount available from the state foundation and local property tax revenues.

The Board will be looking at cost cutting measures for the coming school years in order to address the financial hardships that face the School District. A capital improvement levy on the ballot in November 2003 was defeated. Although a capital improvement levy cannot be used for operating costs, it would ease the burden on the general fund by offsetting costs such as bus replacement.

In 2003, 19 percent of the School District's revenues were from property taxes.

Instructional programs comprise approximately 59 percent of total governmental program expenses. Of the instructional expenses, approximately 79 percent is for regular instruction, 18 percent for special instruction, and 3 percent for vocational instruction.

The Statement of Activities shows the cost of program services and the charges for services, grants, and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by tax revenue and unrestricted entitlements. Comparisons to 2002 have not been made since they are not available.

Table 3
Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
Instruction:		
Regular	\$5,836,433	\$4,837,702
Special	1,298,194	884,882
Vocational	251,148	250,363
Support Services:		
Pupil	464,335	401,396
Instructional Staff	552,741	534,319
Board of Education, Administration and Fiscal	983,711	971,202
Operation and Maintenance of Plant	1,326,127	1,051,377
Pupil Transportation	692,778	628,551
Central	13,217	10,203
Food Service Operations	548,862	85,289
Extracurricular Activities	305,701	179,637
Interest and Fiscal Charges	184,704	184,704
Total Expenses	\$12,457,951	\$10,019,625

Union Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The dependence upon tax revenues and state subsidies for governmental activities is apparent. 80 percent of instruction activities are supported through taxes and other general revenues.

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$11,556,903 and expenditures of \$11,873,062. As apparent, the School District's spending exceeds revenues, leading to a potential deficit situation.

General Fund Budgeting Highlights

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

During the course of fiscal 2003, the School District amended its general fund appropriations, and the budgetary statement reflects both the original and final appropriated amounts.

Budget basis revenue was \$9,680,688 which was below original estimates of \$9,907,838. Of this \$227,150 difference, most was due to decreased state funding with tax receipts also coming in below original estimates.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$15,259,710 invested in land, buildings and vehicles. Table 4 shows fiscal year 2003 balances compared to 2002.

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

	Governmental Activities	
	2003	2002
Land	\$1,842,760	\$1,842,760
Buildings and Improvements	13,192,627	13,720,332
Vehicles	224,323	316,226
Totals	\$15,259,710	\$15,879,318

Union Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The School District did not capitalize furniture and equipment due to the lack of materiality and the fact that they did not have the staff to compile all the information necessary for capitalizing furniture and equipment. Due to the financial condition of the School District, no capital assets were purchased during fiscal year 2003.

See note 9 for more detailed information of the School District's capital assets.

Debt

At June 30, 2003, the School District had \$3,065,000 in general obligation bonds outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	<u>2003</u>	<u>2002</u>
1997 General <u>Obligation</u> Bond	\$3,065,000	\$3,150,000
Totals	<u>\$3,065,000</u>	<u>\$3,150,000</u>

See note 14 for more detailed information about the School District's debt.

Economic Factors

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

Contacting the School District's Financial Management

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

Union Local School District
Statement of Net Assets
June 30, 2003

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$880,610
Cash and Cash Equivalents With Fiscal Agents	124,963
Intergovernmental Receivable	284,819
Prepaid Items	30,551
Inventory Held for Resale	10,326
Materials and Supplies Inventory	69,335
Property Taxes Receivable	2,538,216
Non-Depreciating Capital Assets	1,842,760
Depreciating Capital Assets, Net	13,416,950
<i>Total Assets</i>	19,198,530
Liabilities	
Accounts Payable	94,992
Contracts Payable	92,778
Accrued Wages and Benefits Payable	1,047,857
Matured Severance Payable	43,033
Vacation Benefits Payable	55,628
Intergovernmental Payable	402,288
Accrued Interest Payable	15,836
Claims Payable	9,608
Deferred Revenue	2,166,207
Long-Term Liabilities:	
Due Within One Year	141,115
Due In More Than One Year	3,709,279
<i>Total Liabilities</i>	7,778,621
Net Assets	
Invested in Capital Assets, Net of Related Debt	12,194,710
Restricted for:	
Capital Projects	535,581
Debt Service	487,440
Other Purposes (Deficit)	(237,156)
Unrestricted (Deficit)	(1,560,666)
<i>Total Net Assets</i>	\$11,419,909

See accompanying notes to the basic financial statements

Union Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Current:				
Instruction:				
Regular	\$5,836,433	\$46,281	\$926,283	\$26,167
Special	1,298,194	11,196	402,116	0
Vocational	251,148	785	0	0
Support Services:				
Pupil	464,335	0	62,939	0
Instructional Staff	552,741	0	18,422	0
Board of Education	63,422	0	0	0
Administration	674,544	0	10,708	0
Fiscal	245,745	0	1,801	0
Operation and Maintenance of Plant	1,326,127	150	9,076	265,524
Pupil Transportation	692,778	0	9,694	54,533
Central	13,217	0	3,014	0
Food Service Operations	548,862	186,906	276,667	0
Extracurricular Activities	305,701	120,266	5,798	0
Interest and Fiscal Charges	184,704	0	0	0
<i>Total Governmental Activities</i>	<u>\$12,457,951</u>	<u>\$365,584</u>	<u>\$1,726,518</u>	<u>\$346,224</u>

General Revenues

Property Taxes Levied for General Purposes
Property Taxes Levied for Debt Service
Property Taxes Levied for Capital Outlay
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year (Note 3)

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental
Activities

(\$4,837,702)
(884,882)
(250,363)

(401,396)
(534,319)
(63,422)
(663,836)
(243,944)
(1,051,377)
(628,551)
(10,203)
(85,289)
(179,637)
(184,704)

(10,019,625)

1,856,086
296,786
41,991
7,146,904
17,894
33,428

9,393,089

(626,536)

12,046,445

\$11,419,909

Union Local School District
Balance Sheet
Governmental Funds
June 30, 2003

	General	Debt Service	Facilities Construction	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$0	\$450,982	\$283,538	\$144,778	\$879,298
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	1,312	0	0	0	1,312
Receivables:					
Property Taxes	2,143,543	345,472	0	49,201	2,538,216
Intergovernmental	13,004	0	185,867	85,948	284,819
Interfund	107,025	0	58,610	0	165,635
Prepaid Items	30,551	0	0	0	30,551
Inventory Held for Resale	0	0	0	10,326	10,326
Materials and Supplies Inventory	68,232	0	0	1,103	69,335
<i>Total Assets</i>	<u>\$2,363,667</u>	<u>\$796,454</u>	<u>\$528,015</u>	<u>\$291,356</u>	<u>\$3,979,492</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$87,090	\$0	\$273	\$7,629	\$94,992
Accrued Wages and Benefits	927,411	0	0	120,446	1,047,857
Matured Severance Payable	43,033	0	0	0	43,033
Interfund Payable	0	0	0	165,635	165,635
Intergovernmental Payable	201,033	0	60,000	22,182	283,215
Deferred Revenue	2,045,237	327,878	185,867	122,564	2,681,546
<i>Total Liabilities</i>	<u>3,303,804</u>	<u>327,878</u>	<u>246,140</u>	<u>438,456</u>	<u>4,316,278</u>
Fund Balances					
Reserved for Encumbrances	116,320	0	0	107,853	224,173
Reserved for Property Taxes	104,306	17,594	0	2,506	124,406
Reserved for Bus Purchases	54,533	0	0	0	54,533
Undesignated, Reported in:					
General Fund (Deficit)	(1,215,296)	0	0	0	(1,215,296)
Special Revenue Funds (Deficit)	0	0	0	(292,388)	(292,388)
Debt Service Funds	0	450,982	0	0	450,982
Capital Projects Funds	0	0	281,875	34,929	316,804
<i>Total Fund Balances (Deficit)</i>	<u>(940,137)</u>	<u>468,576</u>	<u>281,875</u>	<u>(147,100)</u>	<u>(336,786)</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,363,667</u>	<u>\$796,454</u>	<u>\$528,015</u>	<u>\$291,356</u>	<u>\$3,979,492</u>

See accompanying notes to the basic financial statements

Union Local School District
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2003*

Total Governmental Fund Balances (Deficit) (\$336,786)

*Amounts reported for governmental activities in the
statement of net assets are different because*

Capital assets used in governmental activities are not financial
resources and therefore are deferred in the funds. 15,259,710

Other long-term assets are not available to pay for current-
period expenditures and therefore are deferred in the funds:

Grants	267,736	
Property Taxes	247,603	
Total		515,339

An internal service fund is used by management to charge the
costs of insurance to individual funds. The assets and
liabilities of the internal service fund are included in
governmental activities in the statement of net assets. 115,355

Intergovernmental payable includes contractually required pension
contributions not expected to be paid with available resources,
and therefore, are not reported in the funds. (119,073)

Long-term liabilities, including bonds payable and accrued
interest payable, are not due and payable in the current period
and therefore are not reported in the funds:

General Obligation Bonds Payable	(3,065,000)	
Compensated Absences	(785,394)	
Vacation Benefits Payable	(55,628)	
Long-Term Contract Payable	(92,778)	
Accrued Interest Payable	(15,836)	
Total		(4,014,636)

Net Assets of Governmental Activities \$11,419,909

See accompanying notes to the basic financial statements

Union Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Debt Service	Facilities Construction	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$1,840,531	\$295,306	\$0	\$42,107	\$2,177,944
Intergovernmental	7,646,165	40,953	79,657	1,121,939	8,888,714
Interest	9,507	0	5,930	446	15,883
Tuition and Fees	58,262	0	0	0	58,262
Extracurricular Activities	0	0	0	120,266	120,266
Rentals	150	0	0	0	150
Contributions and Donations	61,997	0	0	13,353	75,350
Charges for Services	0	0	0	186,906	186,906
Miscellaneous	29,107	0	0	4,321	33,428
<i>Total Revenues</i>	<u>9,645,719</u>	<u>336,259</u>	<u>85,587</u>	<u>1,489,338</u>	<u>11,556,903</u>
Expenditures					
Current:					
Instruction:					
Regular	5,016,376	0	0	444,016	5,460,392
Special	868,891	0	0	352,919	1,221,810
Vocational	233,454	0	0	0	233,454
Support Services:					
Pupil	414,211	0	0	59,747	473,958
Instructional Staff	504,771	0	0	17,033	521,804
Board of Education	62,477	0	0	0	62,477
Administration	660,794	0	0	10,379	671,173
Fiscal	235,456	7,370	0	2,760	245,586
Operation and Maintenance of Plant	1,193,170	0	60,273	68,328	1,321,771
Pupil Transportation	583,426	0	0	9,887	593,313
Central	10,000	0	0	3,281	13,281
Extracurricular Activities	147,984	0	0	128,553	276,537
Food Service Operations	0	0	0	507,363	507,363
Debt Service:					
Principal Retirement	0	85,000	0	0	85,000
Interest and Fiscal Charges	0	185,143	0	0	185,143
<i>Total Expenditures</i>	<u>9,931,010</u>	<u>277,513</u>	<u>60,273</u>	<u>1,604,266</u>	<u>11,873,062</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(285,291)</u>	<u>58,746</u>	<u>25,314</u>	<u>(114,928)</u>	<u>(316,159)</u>
Other Financing Sources (Uses)					
Transfers In	0	0	0	3,082	3,082
Transfers Out	(3,082)	0	0	0	(3,082)
Total Other Financing Sources (Uses)	<u>(3,082)</u>	<u>0</u>	<u>0</u>	<u>3,082</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(288,373)</u>	<u>58,746</u>	<u>25,314</u>	<u>(111,846)</u>	<u>(316,159)</u>
<i>Fund Balances (Deficit) at Beginning of Year - Restated (Note 3)</i>	<u>(651,764)</u>	<u>409,830</u>	<u>256,561</u>	<u>(35,254)</u>	<u>(20,627)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$940,137)</u>	<u>\$468,576</u>	<u>\$281,875</u>	<u>(\$147,100)</u>	<u>(\$336,786)</u>

See accompanying notes to the basic financial statements

Union Local School District
*Reconciliation of the Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds (\$316,159)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. (619,608)

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

Grants	255,582	
Property Taxes	16,919	
Total	272,501	272,501

Repayment of general obligation bonds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 85,000

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due. 439

Some expenses reported in the statement of activities, such as compensated absences, vacation benefits payable and intergovernmental payables, which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Long-Term Contract Payable	46,192	
Intergovernmental Payable	(16,412)	
Vacation Benefits Payable	(15,988)	
Compensated Absences	(78,461)	
Total	(64,669)	(64,669)

The internal service fund used by management to charge the costs of insurance to individual funds is included in the statement of activities and not on the governmental fund statements. The net revenue (expense) internal service fund revenues are eliminated. 15,960

Changes in Net Assets of Governmental Activities (\$626,536)

See accompanying notes to the basic financial statements

Union Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$1,975,000	\$1,915,000	\$1,874,159	(\$40,841)
Intergovernmental	7,787,228	7,776,161	7,646,067	(130,094)
Interest	15,000	15,000	9,507	(5,493)
Tuition and Fees	47,650	47,650	58,262	10,612
Rent	150	150	150	0
Contributions and Donations	58,810	58,810	61,997	3,187
Miscellaneous	24,000	24,000	30,546	6,546
<i>Total Revenues</i>	<u>9,907,838</u>	<u>9,836,771</u>	<u>9,680,688</u>	<u>(156,083)</u>
Expenditures				
Current:				
Instruction:				
Regular	4,530,607	4,952,649	4,952,348	301
Special	830,000	877,844	876,354	1,490
Vocational	225,000	240,273	239,864	409
Other	25,000	19,123	19,123	0
Support Services:				
Pupils	407,316	437,004	426,738	10,266
Instructional Staff	500,000	503,914	498,208	5,706
Board of Education	56,000	60,986	60,248	738
Administration	780,000	640,475	638,988	1,487
Fiscal	231,752	234,404	234,403	1
Operation and Maintenance of Plant	1,200,000	1,222,320	1,171,459	50,861
Pupil Transportation	565,000	679,591	671,261	8,330
Central	10,000	10,000	10,000	0
Extracurricular Activities	151,676	150,060	148,957	1,103
<i>Total Expenditures</i>	<u>9,512,351</u>	<u>10,028,643</u>	<u>9,947,951</u>	<u>80,692</u>
Excess of Revenues Over (Under) Expenditures	<u>395,487</u>	<u>(191,872)</u>	<u>(267,263)</u>	<u>(75,391)</u>
Other Financing Sources (Uses)				
Advances In	0	144,526	27,526	(117,000)
Transfers Out	(15,000)	(3,083)	(3,082)	1
Advances Out	(25,000)	0	0	0
Total Other Financing Sources (Uses)	<u>(40,000)</u>	<u>141,443</u>	<u>24,444</u>	<u>(116,999)</u>
<i>Net Change in Fund Balance</i>	355,487	(50,429)	(242,819)	(192,390)
<i>Fund Balance at Beginning of Year</i>	51,232	51,232	51,232	0
Prior Year Encumbrances Appropriated	<u>46,553</u>	<u>46,553</u>	<u>46,553</u>	<u>0</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$453,272</u>	<u>\$47,356</u>	<u>(\$145,034)</u>	<u>(\$192,390)</u>

See accompanying notes to the basic financial statements

Union Local School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2003

	Governmental Activity <hr/> Internal Service Fund <hr/>
Assets	
Cash and Cash Equivalents With Fiscal Agents	\$124,963
Current Liabilities	
Claims Payable	<hr/> 9,608
Net Assets	
Unrestricted	<hr/> 115,355
<i>Total Net Assets</i>	<hr/> <hr/> \$115,355

See accompanying notes to the basic financial statements

Union Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2003

	<u>Governmental Activity</u> <u>Internal Service Fund</u>
Operating Revenues	
Charges for Services	<u>\$172,905</u>
<i>Total Operating Revenues</i>	<u>172,905</u>
Operating Expenses	
Purchased Services	27,458
Fringe Benefits	<u>131,498</u>
<i>Total Operating Expenses</i>	<u>158,956</u>
<i>Operating Income</i>	13,949
Non-Operating Revenues	
Interest	<u>2,011</u>
<i>Change in Net Assets</i>	15,960
<i>Net Assets Beginning of Year</i>	<u>99,395</u>
<i>Net Assets End of Year</i>	<u><u>\$115,355</u></u>

See accompanying notes to the basic financial statements

Union Local School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003

	Governmental Activity
	Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	\$172,905
Cash Payments for Goods and Services	(27,458)
Cash Payments for Claims	(130,865)
	14,582
<i>Net Cash Provided by Operating Activities</i>	14,582
Cash Flows from Investing Activities	
Interest	2,011
	2,011
<i>Net Cash Provided by Investing Activities</i>	2,011
<i>Net Increase in Cash and Cash Equivalents</i>	16,593
<i>Cash and Cash Equivalents Beginning of Year</i>	108,370
<i>Cash and Cash Equivalents End of Year</i>	\$124,963
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$13,949
Increase in Liabilities:	
Claims Payable	633
	633
<i>Net Cash Provided by Operating Activities</i>	\$14,582

See accompanying notes to the basic financial statements

Union Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	Private Purpose Trust	
	Mueller Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$22,298	\$32,184
Liabilities		
Due to Students	0	32,184
<i>Total Liabilities</i>	0	\$32,184
Net Assets		
Held in Trust for Scholarships	22,298	
<i>Total Net Assets</i>	\$22,298	

See accompanying notes to the basic financial statements

Union Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2003

	Private Purpose Trust
	Mueller Scholarship
Additions	
Contributions and Donations	\$20,533
Deletions	
Scholarships Awarded	(29,333)
<i>Net Change in Fund Balance</i>	(8,800)
<i>Net Assets Beginning of Year</i>	31,098
<i>Net Assets End of Year</i>	\$22,298

See accompanying notes to the basic financial statements

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Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1952 through the consolidation of the Union Township, Smith Township, Belmont, Bethesda, Lafferty, and Holloway schools. In 1968, the new Union Local School District was formed when the Flushing School District joined the consolidation. The combined high school, Union Local High School, was built in 1958, with the first class graduating in 1960. In the fall of 1998, Union Local School District finished construction of a new high school. In the fall of 1999, construction of a new elementary school was complete, as well as the renovations to the old high school which was converted into the middle school. It is located in Belmont County, and includes all of the Villages of Morristown, Belmont, Centerville, Bethesda, and Flushing. The School District is the 357th largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by 72 non-certificated employees, 129 certificated full-time teaching personnel, and 12 administrative employees who provide services to 1,546 students and other community members. Subsequent to the completion of the renovations to the high school building and new addition and the construction of the new elementary school, the Flushing, Centerville, Belmont, and Bethesda Elementary Buildings were turned over to the communities for one dollar. The School District currently operates 3 instructional buildings, 1 administrative building, and 1 garage.

Reporting Entity:

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

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

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

The School District is involved with the Belmont-Harrison Vocational School, the Ohio Mid-Eastern Educational Service Agency (OME-RESA), East Central Ohio Special Education Regional Resource Center (ECOSERRC), the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Ohio School Plan, and the Ohio Mid Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan which are defined as jointly governed organizations, insurance purchasing pools, and a claims servicing pool. These organizations are presented in Notes 16 and 17 to the general purpose financial statements.

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

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

Facilities Construction Capital Projects Fund The facilities construction fund is used to account for the state and federal grants to be used for facilities upgrades.

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

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

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

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

C. Measurement Focus

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

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

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

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

E. Cash and Cash Equivalents

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

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

During fiscal year 2003 the School District had no investments.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$9,507 which includes \$8,203 assigned from other School District funds.

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

F. Restricted Assets

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption and purchased food and commodities held for resale.

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

I. Capital Assets

The only capital assets of the School District are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

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

J. Interfund Balances

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

extent that they are due for payment during the current year. The unmatured portion of these obligations should be reported as general long-term liabilities segregated between amounts due within one year and amounts due in more than one year. Long-term notes and loans are recognized as a liability on the governmental fund financial statements when due or when resources are available. The unmatured portion of these obligations should also be reported as general long-term liabilities segregated between amounts due within one year and amounts due in more than one year.

M. Interfund Activity

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

N. Fund Balance Reserves

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

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

O. Net Assets

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

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for the self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Q. Contributions of Capital

Contributions of capital in proprietary financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

R. Extraordinary and Special Items

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

S. Estimates

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

T. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the function level for the General Fund, and at the fund level for all other funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The treasurer is given the authority to further allocate appropriations among objects in the General Fund and among functions and objects in all other funds. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

Changes in Accounting Principles For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local

Union Local School District, Ohio
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For the Fiscal Year Ended June 30, 2003

Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 41, “Budgetary Comparison Schedules - Perspective Differences”, and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

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

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures. At June 30, 2003, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

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

GASB Statement No. 41 allows presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective difference result in the School District not being able to present budgetary comparisons for the general and each major special revenue fund. This statement was not applicable to the School District for fiscal year 2003.

Restatement of Fund Balances The fund classification was updated during fiscal year 2003 to reclassify the food service fund, previously reported as an enterprise fund, as a special revenue fund. This reclassification and the implementation of Interpretation No. 6 had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of governmental activities is also presented.

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	General	Debt Service	Facilities Construction	Nonmajor Funds	Total
Fund Balances, June 30, 2002	(\$658,826)	\$409,830	\$256,561	\$110,079	\$117,644
Fund Reclassification:					
Food Service	0	0	0	(155,667)	(155,667)
Interpretation 6:					
Compensated Absences	7,062	0	0	10,334	17,396
Restated Fund Balances, June 30, 2002	<u>(\$651,764)</u>	<u>\$409,830</u>	<u>\$256,561</u>	<u>(\$35,254)</u>	<u>(\$20,627)</u>
GASB 34 Adjustments:					
Capital Assets					15,879,318
Internal Service Fund					99,395
Compensated Absences					(706,933)
Vacation Benefits Payable					(39,640)
Contract Payable					(138,970)
GO Bonds Payable					(3,150,000)
Accrued Interest Payable					(16,275)
Intergovernmental Payable					(102,661)
Deferred Revenue					<u>242,838</u>
Governmental Activities Net Assets, June 30, 2002					<u>\$12,046,445</u>

The transition from proprietary fund equity to net assets of the business type activities is as follows:

	<u>Food Service</u>
Fund Equity, June 30, 2002	\$175,676
Fund Reclassification	<u>(175,676)</u>
Business Type Activities, June 30, 2002	<u>\$0</u>

Union Local School District, Ohio
Notes to the Basic Financial Statements
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NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability:

At June 30, 2003, the following funds had deficit fund balances:

	<u>Deficit Fund Balance</u>
General Fund	\$940,137
<u>Special Revenue Funds:</u>	
Miscellaneous State Funds	\$20,637
Miscellaneous Federal Funds	\$59,339
Food Service Fund	\$199,256

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

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

The Food Service Fund deficit balance is due in part to a deficit cash balance, as well as an interfund payable to the General Fund for prior year subsidies to the food service program. The General Fund had insufficient cash to cover the deficit cash balance, which was recorded as an interfund payable to the Facilities Construction Capital Projects Fund.

The General Fund has restricted cash and cash equivalents in the amount of \$1,312. The restricted cash and cash equivalent balance should be \$54,533 for bus purchases, but the District does not have available unrestricted cash resources to cover the remaining balance of the restriction. The School District currently has a zero unrestricted cash balance in the General Fund.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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For the Fiscal Year Ended June 30, 2003

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

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	(\$288,373)
Revenue Accruals	34,969
Expenditure Accruals	129,405
Advances In	27,526
Encumbrances	<u>(146,346)</u>
Budget Basis	<u><u>(\$242,819)</u></u>

NOTE 6 - CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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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 marked to market daily, and that the term of the agreement must not exceed thirty days;
 4. Bonds and other obligations of the State of Ohio;
 5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
 6. The State Treasurer's investment pool (STAR Ohio);
 7. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
 8. Under limited circumstances, corporate debt interests rated in either the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specific 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 by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits: At fiscal year end, the carrying amount of the School District's deposits were \$935,092 and the bank balance was \$1,005,013. Of the bank balance:

\$100,000 was covered by federal depository insurance; and

\$905,013 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department or agent in the School District's name and all State statutory requirements for the deposit of money have been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

At June 30, 2003, the School District's internal service fund had a balance of \$124,963 with OME-RESA, a claims servicing pool (See Note 17). The money is held by the claims servicing pool in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the OME-RESA Self-Insurance Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Self-Insurance Plan, Debra Angelo, who serves as Treasurer, Steubenville, Ohio 43952.

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Belmont and Harrison Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The amount available as an advance at June 30, 2003 was \$104,306 in the general fund, \$17,594 in the debt service fund, and \$2,506 in the classroom facilities capital projects fund. The amount available as an advance at June 30, 2002, was \$137,934 in the general fund, \$21,480 in the debt service fund, and \$3,068 in the classroom facilities capital projects fund.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$80,388,740	86.0%	\$81,777,790	86.4%
Public Utility Personal	7,708,110	8.2%	7,836,760	8.3%
Tangible Personal	5,385,800	5.8%	5,056,630	5.3%
	\$93,482,650	100.0%	\$94,671,180	100.0%
Tax Rate per \$1,000 of assessed valuation		\$32.50		\$32.50

NOTE 8 - RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes, accounts, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities:</u>	<u>Amounts</u>
E-Rate Reimbursement	\$6,000
CAFS Reimbursement	7,004
FEMA Reimbursement	1,768
Emergency Repair Grant	185,867
Title IIA	3,985
Title IID	3,110
Title IVA	4,325
Title V	3,798
Part B - IDEA	68,962
Total Intergovernmental Receivables	\$284,819

Union Local School District, Ohio
Notes to the Basic Financial Statements
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NOTE 9 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance at 6/30/02	Additions	Deletions	Balance at 6/30/03
Capital Assets - Not Depreciated:				
Land and Improvements	\$1,842,760	0	0	\$1,842,760
Capital Assets - Depreciated:				
Buildings and Improvements	17,591,319	0	0	17,591,319
Vehicles	1,201,908	0	0	1,201,908
Total Capital Assets - Depreciated	18,793,227	0	0	18,793,227
Less Accumulated Depreciation:				
Buildings and Improvements	(3,870,987)	(527,705)	0	(4,398,692)
Vehicles	(885,682)	(91,903)	0	(977,585)
Total Accumulated Depreciation	(4,756,669)	(619,608)	0	(5,376,277)
Total Capital Assets - Depreciated, Net	14,036,558	(619,608)	0	13,416,950
Governmental Capital Assets, Net	\$15,879,318	(\$619,608)	\$0	\$15,259,710

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$357,216
Special	64,948
Vocational	16,237
Support Services:	
Pupils	8,119
Instructional Staff	16,237
Administration	16,237
Operation and Maintenance of Plant	4,598
Pupil Transportation	87,305
Food Service Operations	32,474
Extracurricular Activities	16,237
Total Depreciation Expense	<u>\$619,608</u>

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based upon the types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 17). The School District contracted with the Ohio School Plan for liability insurance. The policy has a liability per occurrence limit ranging from \$10,000 to \$2,000,000 and a \$3,000,000 aggregate annual limit.

The School District contracted with Indiana Insurance for property coverage. The property insurance policy is a replacement cost policy with a \$2,500 to \$1,000,000 deductible. The total coverage of the policy is \$33,993,850.

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

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year. The School District pays the State a rate per \$100 of salaries for workers' compensation.

Prescription, vision, and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool, consisting of fifty members, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$9,608 reported in the internal service fund at June 30, 2003 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2002	\$13,675	\$210,661	\$215,361	\$8,975
2003	\$8,975	\$131,498	\$130,865	\$9,608

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection

Union Local School District, Ohio
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For the Fiscal Year Ended June 30, 2003

criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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 a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$142,965, \$63,964 and \$38,641 respectively; 54.29 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that may be obtained by writing to State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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

Union Local School District, Ohio
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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 were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$770,802, \$751,096, and \$720,580 respectively; 83.87 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$595 made by the School District and \$816 made by the plan members.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired 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. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$57,870 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 fiscal 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 the premium.

Union Local School District, Ohio
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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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. 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 was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$146,379.

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 currently receiving health care benefits.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Health/Life Insurance

The School District contracts with local health management organizations, Health Plan of the Upper Ohio Valley and Health Assurance, for hospitalization and major medical insurance for all employees. The School District pays monthly premiums of up to \$664.88 for family coverage and up to \$265.95 for individual coverage. Premiums are paid from the same funds that pay the employees' salaries.

Union Local School District, Ohio
Notes to the Basic Financial Statements
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NOTE 14 - LONG - TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Principal Outstanding 6/30/02	Additions	Deductions	Principal Outstanding 6/30/03	Amounts Due In One Year
General Obligation Bond - 1997					
Variable Interest	\$3,150,000	\$0	\$85,000	\$3,065,000	\$90,000
Compensated Absences	706,933	280,318	201,857	785,394	51,115
Total General Long-Term Obligations	<u>\$3,856,933</u>	<u>\$280,318</u>	<u>\$286,857</u>	<u>\$3,850,394</u>	<u>\$141,115</u>

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

The general obligation bonds were issued in 1997 and represented the local share for the School District's construction of the new high school, new elementary school, and for the middle school renovations. The general obligation bonds will be paid from the proceeds of a 4.5 mill bond levy. In addition to these proceeds, the School District received \$15,262,035 in monies from the Ohio School Facilities Commission. Initially, repayment of the Ohio School Facilities Commission funds was to be made over a twenty-three year period from a half-mill levy. During 1998, the School District passed the necessary board resolution which enables the School District to retain the half-mill levy for the maintenance of the new buildings due to the School District's assessed value being below the statewide median. As a result of the approval from the Ohio School Facilities Commission, the School District has no obligation to repay the School Facilities Loan.

The School District's overall legal debt margin was \$5,455,406 with an unvoted debt margin of \$94,671 at June 30, 2003.

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

Fiscal Year Ending June 30, 2003	Principal	Interest	Total
2004	90,000	180,810	\$270,810
2005	105,000	175,305	280,305
2006	110,000	168,613	278,613
2007	120,000	161,426	281,426
2008	135,000	153,457	288,457
2009-2013	875,000	622,208	1,497,208
2014-2018	1,310,000	299,133	1,609,133
2019	320,000	9,440	329,440
Total	<u>\$3,065,000</u>	<u>\$1,770,392</u>	<u>\$4,835,392</u>

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The School District has a liability for a school fitness equipment lease. The liability is recorded as a long term contract payable instead of a capital lease due to the fact that the associated equipment was not capitalized.

NOTE 15 – INTERNAL BALANCES

Interfund balances at June 30, 2003 consist of the following individual interfund receivables and payables:

	Interfund Receivable		
<u>Interfund Payable</u>	General Fund	Facilities Construction Fund	Total All Funds
Other Governmental Funds	\$107,025	\$58,610	\$165,635

The interfund receivable in the General Fund is for the subsidy of the food service program reported in Other Governmental Funds. The interfund receivable between the Facilities Construction Capital Projects Fund and the Other Governmental Funds is for an advance to the food service program for a deficit cash balance and is created for reporting purposes. However, the Facilities Construction Capital Projects Fund is not legally authorized to advance cash to the food service program. As of December 31, 2003, the food service fund had an unaudited negative fund cash balance of \$101,888. Since the Food Service Fund does not have the ability to repay the General Fund, the Board of Education passed a resolution on January 22, 2004, to convert the outstanding advance into a permanent transfer.

Interfund transfers for the fiscal year ended June 30, 2003 consisted of the following:

	Transfer To
<u>Transfer From</u>	Other Governmental Funds
Major Fund:	
General Fund	\$3,082
Total All Funds	\$3,082

The transfer was to use unrestricted revenues collected in the general fund to finance various programs accounted for in the miscellaneous local fund in accordance with budgetary authorization.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Belmont-Harrison Vocational School – The Belmont-Harrison Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school district’s elected boards, which possesses its own budgeting and taxing authority. During fiscal year 2003, the School District made no contributions to the Vocational School District. To obtain financial information write to the Belmont-Harrison Vocational School, Alexis Petrilla, who serves as Treasurer, at Fox Shannon Road, St. Clairsville, Ohio 43950.

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Ohio Mid-Eastern Regional Educational Service Agency - The Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. OME-RESA provides financial accounting services, educational management information, and cooperative purchasing services to member districts. During fiscal year 2003, the total amount paid to OME-RESA from the School District was \$29,277. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Dick Gummere, who serves as Interim Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

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

NOTE 17 – PUBLIC ENTITY POOLS

A. Insurance Purchasing Pools

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

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

B. Claims Servicing Pool

Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan – The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, a claims servicing pool comprised of fifty members. Each participant is a member of the assembly. The Plan's business and affairs are conducted by a nine member Board of Directors elected

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

from the OME-RESA's assembly. Each member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk and the Plan acts as the claims servicing agent.

NOTE 18 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

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

During fiscal year 2001, the Board of Education passed a resolution to expend the budget reserve amount pursuant to State Statute, and as a result no budget reserve exists at June 30, 2003.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2002	\$50,463	\$0
Current Year Set-aside Requirement	211,734	211,734
Current Year Offsets	0	(48,533)
Qualifying Disbursements	<u>(273,956)</u>	<u>(203,133)</u>
Totals	<u>(\$11,759)</u>	<u>(\$39,932)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(11,759)</u>	<u>0</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$0</u>	<u>\$0</u>

The School District met the total requirements during fiscal year 2003 for both of the set-asides. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years.

Union Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 19 - CONTINGENCIES

A. Grants

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

NOTE 20 – STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 21 – FINANCIAL CONDITION

The School District is experiencing financial difficulties. The following conditions are of concern:

- The School District's general fund had a fund cash balance at June 30, 2003, of only \$1,322. As of December 31, 2003, the general fund had an unaudited negative fund cash balance of \$156,222.
- The School District's five-year forecast indicates a budget deficit for fiscal year 2005 in the amount of \$560,000.

Management's plans in regards to addressing the conditions described above include:

- Effective December 9, 2003, the School District has put a freeze on discretionary purchases from the general fund. Emergency requests for purchases will be reviewed and approved by the School District on a case by case basis.
- The School District has frozen the salaries of administrative personnel.
- On January 22, 2004, the Board of Education passed a budget reduction measure to address the projected deficit for fiscal year 2005. This reduction plan will be submitted to the Ohio Department of Education for their review.

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UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY

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

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>UNITED STATES DEPARTMENT OF AGRICULTURE</u>						
<i>Passed-Through State Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	NA	\$0	\$60,364	\$0	\$60,364
School Breakfast Program	10.553	046011-05-PU-02	5,778		5,778	
	10.553	046011-05-PU-03	38,538		38,538	
Total School Breakfast Program			44,316	0	44,316	0
National School Lunch Program	10.555	046011-LL-P4-02	23,616		23,616	
	10.555	046011-LL-P4-03	131,669		131,669	
Total National School Lunch Program			155,285	0	155,285	0
Total United State Department of Agriculture - Nutrition Cluster			199,601	60,364	199,601	60,364
<u>UNITED STATES DEPARTMENT OF EDUCATION</u>						
<i>Passed-Through State Department of Education:</i>						
Title I Grans to Local Educational Agencies	84.010	046011-C1-S1-03	358,133		358,133	
Special Education Grants to States	84.027	046011-6B-SF-02-P	52,746		31,278	
	84.027	046011-6B-SF-03-P	100,361		96,661	
Total Special Education Grants to States			153,107	0	127,939	0
Safe and Drug-Free Schools and Communities State Grants	84.186	046011-DR-S1-03	5,972		5,972	
Title III - Goals 2000 Educate America Act	84.276	046011-G2-S1-01			6,105	
	84.276	046011-G2-S2-01			58	
Total Title III - Goals 2000 Educate America Act			0	0	6,163	0
Eisenhower Professional Development State Grants	84.281	046011-MS-S1-02			120	
Innovative Education Program Strategies	84.298	046011-C2-S1-00			45	
	84.298	046011-C2-S1-01			830	
	84.298	046011-C2-S1-02	865		2,313	
	84.298	046011-C2-S1-03	5,949		5,948	
Total Innovative Education Program Strategies			6,814	0	9,136	0
Education Technology State Grants	84.318	046011-TJ-S1-03	6,696		4,735	
Title VI of the ESEA, Class Size Reduction Grant	84.340	046011-CR-S1-02			3,077	
School Renovation, IDEA and Technology Grants Program						
Federal Emergency Repair Program	84.352	046011-AT-S2-02	79,657			
Improving Teacher Quality State Grants	84.367	046011-TR-S1-03	96,890		98,233	
Total United States Department of Education			707,269	0	613,508	0
<u>UNITED STATES DEPARTMENT OF JOB AND FAMILY SERVICES</u>						
<i>Passed-Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	93.778	N/A	22,725		22,725	
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>						
<i>Passed-Through Ohio Emergency Management Agency:</i>						
Public Assistance Grants	83.544	DR-1453			1,769	
Total Federal Emergency Management Agency					1,769	
Total Federal Awards Receipts and Expenditures			\$929,595	\$60,364	\$837,603	\$60,364

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

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the Union Local School District, Belmont County, Ohio (the School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated January 23, 2004, wherein we noted the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2003-001 and 2003-002. We also noted a certain immaterial instance of noncompliance that we have reported to the management of the School District in a separate letter dated January 23, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School 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.

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

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated January 23, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive style with a large initial "B".

Betty Montgomery
Auditor of State

January 23, 2004



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 School 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 School District's compliance with those requirements.

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

Internal Control over Compliance

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



Betty Montgomery
Auditor of State

January 23, 2004

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster - Food Donation Program, CFDA #10.550; School Breakfast Program, CFDA #10.553; and National School Lunch Program, CFDA #10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states that money paid into any fund shall be used only for the purposes for which such a fund was established. As a result, a deficit fund balance indicates that money from one fund was used to cover the expenses of another fund.

As of June 30, 2003, the Food Service Fund reflected a deficit cash fund balance of \$58,610.

As of February 28, 2003, the Food Service Fund reflected a deficit cash fund balance of \$48,908.

As of October 31, 2002, the Food Service, Title I and Title II-A Funds reflected deficit cash fund balances of \$63,636, \$66,138 and \$21,380, respectively.

We recommend the School Treasurer monitor fund balances to ensure that monies from one fund are not utilized to pay the obligations of another fund. To cover temporary cash flow shortages, the School District may be able to advance money from other funds. The School District should consult with its legal counsel and review Auditor of State Audit Bulletin 1997-003 to determine if an advance of funds to prevent a deficit cash balance would be appropriate.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Rev. Code Section 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Although inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year and cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

The Facilities Construction Fund advanced money to the Food Service Fund to eliminate a deficit cash balance and was created for reporting purposes. However, the Facilities Construction Fund is not legally authorized to advance cash to the Food Service Fund.

We recommend the School District first consider the restrictions on inter-fund cash advances prior to advancing monies. If monies are not available in those funds which may meet the inter-fund cash advance restrictions, then the School District should consider other alternatives, such as obtaining a tax advance from the County Auditor or a short-term loan.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

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

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

**FINDING NUMBER 2003-002
(Continued)**

Noncompliance Citation (Continued)

Management should refer to Auditor of State Bulletin 97-003 for guidance when considering inter-fund cash advances.

We also recommend the School Treasurer monitor the expenditures of the Food Service Fund to ensure that expenditures do not exceed revenues and thus create a deficit balance situation.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**UNION LOCAL CITY SCHOOL DISTRICT
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
OMB CIRCULAR A-133 SECTION .315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> : <i>Explain:</i>
2002-001	Ohio Rev. Code Section 5705.10 states money paid into one fund may only be used for the purposes for which such fund was established.	No	Reissued as Finding Number 2003-001.

**UNION LOCAL SCHOOL DISTRICT
BELMONT COUNTY**

**CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	The School Treasurer will monitor all fund balances in order to ensure adequate cash balances are on hand to cover expenses.	June 30, 2004	Shawn Miller, Treasurer
2003-002	The School Treasurer will monitor the expenditures of the Food Service Fund to ensure expenditures do not exceed revenues also prior to advancing monies, the School Treasurer will consider the restrictions on inter-fund advances.	June 30, 2004	Shawn Miller, Treasurer

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**Auditor of State
Betty Montgomery**

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UNION LOCAL SCHOOL DISTRICT

BELMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 30, 2004**