



**Auditor of State
Betty Montgomery**

**MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets - June, 30, 2005	14
Statement of Activities - For the Fiscal Year Ended June 30, 2005	15
Balance Sheet – Governmental Funds - June 30, 2005.....	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities - June 30, 2005	17
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds - For the Fiscal Year Ended June 30, 2005	18
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – For the Fiscal Year Ended June 30, 2005	19
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund – For the Fiscal Year Ended June 30, 2005	20
Statement of Net Assets – Proprietary Funds - June, 30, 2005	21
Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds - For the Fiscal Year Ended June 30, 2005	22
Statement of Cash Flows - Proprietary Funds - For the Fiscal Year Ended June 30, 2005.....	23
Statement of Net Assets - Fiduciary Funds - June, 30, 2005	24
Statement of Changes in Net Assets – Fiduciary Fund - For the Fiscal Year Ended June 30, 2005	25
Notes to the Basic Financial Statements	26
Schedule of Federal Awards Expenditures – For the Fiscal Year Ended June 30, 2005.....	51
Notes to the Schedule of Federal Awards Expenditures	52
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	53
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	55
Schedule of Findings.....	57

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Milton-Union Exempted Village School District
Miami County
112 South Spring Street
West Milton, Ohio 45383

To the Members of the Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Milton-Union Exempted Village School District, Miami County, the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Management has not adopted a methodology for reviewing the self-insurance medical claims activity which were processed by a service organization that is independent of the District. The service organization did not provide us with evidence we requested regarding the design or proper operation of its internal controls relative to the processing of the District's health insurance claim transactions and we were unable to satisfy ourselves as to the proper processing of health insurance claims. The self-insurance activity is recorded by the District in a proprietary internal service fund. The self-insurance fund activity has a material effect on the expenditures presented on the Statement of Activities and the Remaining Fund Information. The self-insurance expenses represent 14% of total expenses on the Statement of Activities, and 100% of the operating expenses of the internal service fund which are included as part of the aggregate remaining fund information.

In our opinion, except for the effects of our inability to substantiate the expenditures reported for the self-insurance activity, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Milton-Union Exempted Village School District, as of June 30, 2005, and the respective changes in financial position and cash flows, thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

April 7, 2006

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

The discussion and analysis of Milton-Union Exempted Village School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2005 are as follows:

- ❑ Net assets increased \$766,645, which represents a 15% increase from 2004.
- ❑ General revenues accounted for \$12,870,897 in revenue or 85% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,275,343 or 15% of total revenues of \$15,146,240.
- ❑ The District had \$14,379,595 in expenses related to governmental activities; only \$2,275,343 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$12,870,897 were adequate to provide for these programs.
- ❑ The general fund had \$13,183,702 in revenues and \$12,517,396 in expenditures. The general fund's fund balance increased \$615,337 to \$1,834,050. This increase in fund balance can be attributed to a large increase in property tax collections.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the District's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005***

Unaudited

The two government-wide statements report the District's net assets and how they have changed. Net-assets (the difference between the District's assets and liabilities) is one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District reflect the following category for its activities:

Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

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

Proprietary Funds – The District uses an internal service fund to report activities that provide services for the District's other programs and activities. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Assets and the Statement of Activities.

Fiduciary Funds – The District is the trustee, or fiduciary, for various student-managed activity programs, various scholarship programs and other items listed as agency and private purpose. It is also responsible for other assets that, due to a trust arrangement can only be used for the trust beneficiaries. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Unaudited

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2005 compared to 2004.

	Governmental Activities		Increase (Decrease)
	2005	2004	
Current and other assets	\$9,227,016	\$9,102,432	\$124,584
Capital assets, Net	4,562,572	4,450,865	111,707
Total assets	13,789,588	13,553,297	236,291
Long-term debt outstanding	1,093,581	1,148,389	(54,808)
Other liabilities	6,804,613	7,280,159	(475,546)
Total liabilities	7,898,194	8,428,548	(530,354)
Net assets			
Invested in capital assets, net of related debt	4,469,768	4,273,527	196,241
Restricted	330,723	429,669	(98,946)
Unrestricted	1,090,903	421,553	669,350
Total net assets	\$5,891,394	\$5,124,749	\$766,645

This space intentionally left blank.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2005 compared with 2004:

	Governmental Activities		Increase (Decrease)
	2005	2004	
Revenues			
Program revenues:			
Charges for Services and Sales	\$1,317,345	\$1,262,956	\$54,389
Operating Grants and Contributions	954,286	839,466	114,820
Capital Grants and Contributions	3,712	260,798	(257,086)
General revenues:			
Property Taxes	5,677,867	4,613,064	1,064,803
Grants and Entitlements	7,062,266	6,955,002	107,264
Other	130,764	252,668	(121,904)
Total revenues	<u>15,146,240</u>	<u>14,183,954</u>	<u>962,286</u>
Program Expenses			
Instruction	8,209,156	8,136,120	73,036
Support Services:			
Pupils	714,010	720,103	(6,093)
Instructional Staff	768,032	758,749	9,283
Board of Education	64,451	88,860	(24,409)
Administration	1,050,662	1,065,254	(14,592)
Fiscal Services	401,469	386,293	15,176
Business	155,621	138,262	17,359
Operation and Maintenance of Plant	918,333	1,158,420	(240,087)
Pupil Transportation	806,733	781,703	25,030
Central	410,907	344,032	66,875
Operation of Non-Instructional Services	365,876	464,365	(98,489)
Extracurricular Activities	513,257	470,267	42,990
Debt Service:			
Interest and Fiscal Charges	1,088	6,783	(5,695)
Total expenses	<u>14,379,595</u>	<u>14,519,211</u>	<u>(139,616)</u>
Total Change in Net Assets	766,645	(335,257)	1,101,902
Beginning Net Assets	<u>5,124,749</u>	<u>5,460,006</u>	<u>(335,257)</u>
Ending Net Assets	<u><u>\$5,891,394</u></u>	<u><u>\$5,124,749</u></u>	<u><u>\$766,645</u></u>

Governmental Activities

Net assets of the District's governmental activities increased by \$766,645. The largest contributing factor to this increase was a substantial increase in property tax revenues, which was the result of a new levy passed in November 2003. The District received capital grants in fiscal 2004 for asbestos abatement and flooring work. A decrease in this grant money in fiscal 2005 caused decreases in capital grants and expenditures for operation and maintenance of plant.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

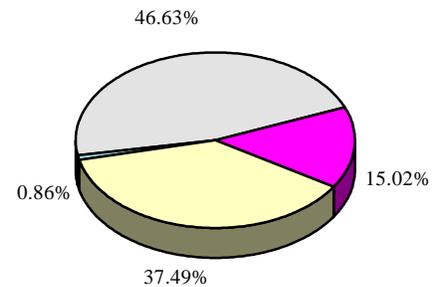
**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Property taxes made up 37% of revenues for governmental activities for Milton-Union Schools in fiscal year 2005. The District's reliance upon tax revenues is demonstrated by the following graph:

Revenue Sources	2005	Percent of Total
General Grants	\$7,062,266	46.63%
Program Revenues	2,275,343	15.02%
General Tax Revenues	5,677,867	37.49%
General Other	130,764	0.86%
Total Revenue	<u>\$15,146,240</u>	<u>100.00%</u>



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$2,262,119, which is above last year's total of \$1,740,534. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Fund Balance June 30, 2004	Increase (Decrease)
General	\$1,834,050	\$1,218,713	\$615,337
Other Governmental	428,069	521,821	(93,752)
Total	<u>\$2,262,119</u>	<u>\$1,740,534</u>	<u>\$521,585</u>

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

Unaudited

General Fund –The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2005 Revenues	2004 Revenues	Increase (Decrease)
Taxes	\$5,323,726	\$4,218,582	\$1,105,144
Tuition	608,420	522,770	85,650
Transportation Fees	94,069	153,034	(58,965)
Investment Earnings	86,418	37,227	49,191
Intergovernmental - State	7,047,323	7,159,788	(112,465)
Intergovernmental - Federal	11,881	29,097	(17,216)
All Other Revenue	11,865	5,714	6,151
Total	\$13,183,702	\$12,126,212	\$1,057,490

General Fund revenues in 2005 increased approximately 9% compared to revenues in fiscal year 2004. The primary factor contributing to this increase was the substantial increase in property taxes received. Property taxes increased as the result of a new levy passed in November 2003.

	2005 Expenditures	2004 Expenditures	Increase (Decrease)
Instruction	\$7,388,507	\$7,431,812	(\$43,305)
Supporting Services:			
Pupils	706,657	718,733	(12,076)
Instructional Staff	703,257	575,368	127,889
Board of Education	64,336	88,860	(24,524)
Administration	973,452	934,516	38,936
Fiscal Services	396,734	382,613	14,121
Business	158,277	140,495	17,782
Operation & Maintenance of Plant	825,307	807,611	17,696
Pupil Transportation	751,411	715,246	36,165
Central	282,074	238,798	43,276
Extracurricular Activities	267,384	241,192	26,192
Total	\$12,517,396	\$12,275,244	\$242,152

Overall, expenditures remained very stable, increasing by \$242,152 or less than 2% compared to the prior year. The increase in Instructional Staff can be attributed to the hiring of three additional aides.

The 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 year 2005 the District amended its General Fund budget several times, none significant.

For the General Fund, budget basis revenue of \$13 million was equal to original budget estimates of \$13 million. The General Fund had an adequate fund balance to cover expenditures.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005 the District had \$4,562,572 net of accumulated depreciation invested in land, buildings, equipment and vehicles. The following table shows fiscal year 2005 and 2004 balances:

	Governmental Activities		Increase (Decrease)
	2005	2004	
Land	\$107,448	\$107,448	\$0
Construction in Progress	121,194	0	121,194
Land Improvements	323,408	234,144	89,264
Buildings and Improvements	4,138,626	3,999,807	138,819
Machinery and Equipment	2,131,947	2,055,086	76,861
Vehicles	1,186,713	1,122,579	64,134
Less: Accumulated Depreciation	(3,446,764)	(3,068,199)	(378,565)
Totals	\$4,562,572	\$4,450,865	\$111,707

The primary changes occurred in construction in progress, land improvements and buildings and improvements. The increases in construction in progress and land improvements can be attributed to improvements to the school track. Asbestos abatement work contributed to the increase in buildings and improvements.

Additional information on the District's capital assets can be found in Note 8.

Debt

The following table summarizes the District's debt outstanding as of June 30, 2005:

	2005	2004
Governmental Activities:		
General Obligation Bond:		
Energy Conservation	\$0	\$57,500
Capital Leases Payable	92,804	119,838
Compensated Absences	1,000,777	971,051
Totals	\$1,093,581	\$1,148,389

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2005, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 10.

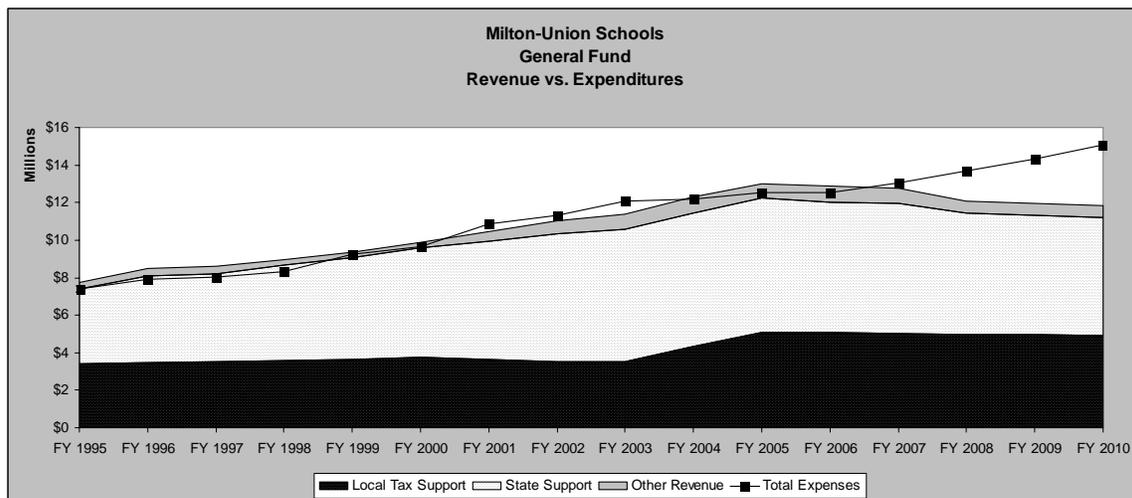
MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005**

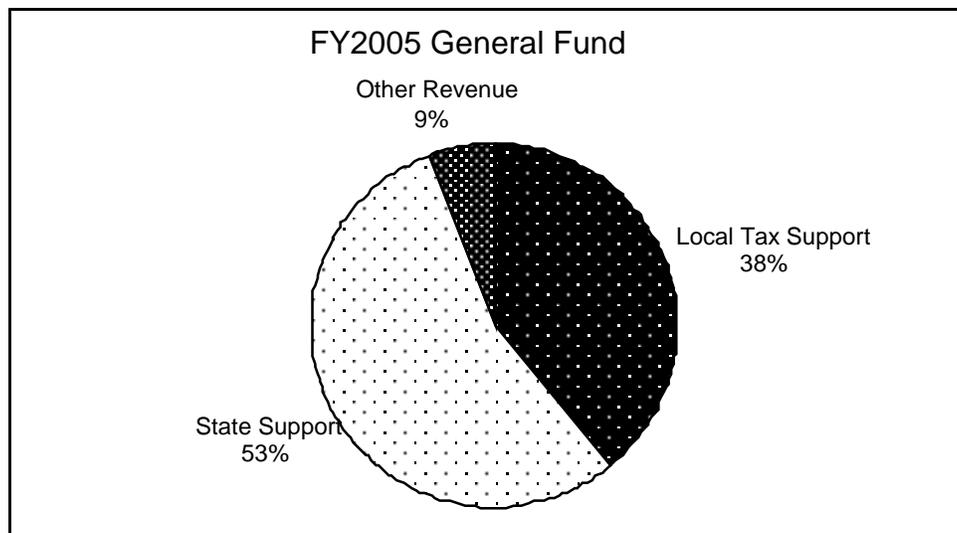
Unaudited

ECONOMIC FACTORS

Milton-Union Schools ended the 2004-05 school year with a \$2,928,423 General Fund cash balance. This represents less than three months of General Fund expenditures. This balance was possible due to the passage of a 10.9 mil levy in 2003 and a full year collection during 2004-05. Milton-Union Schools had a positive cash flow of \$739,573 in 2004-05. Revenues totaled \$13,258,267 and expenditures totaled \$12,518,694.



Milton-Union's General Fund revenue increased by 7.5% over 2003-04 revenue. As noted above, 2004-05 was the first full fiscal year collection of the 10.9 mil levy and cause of the revenue increase.



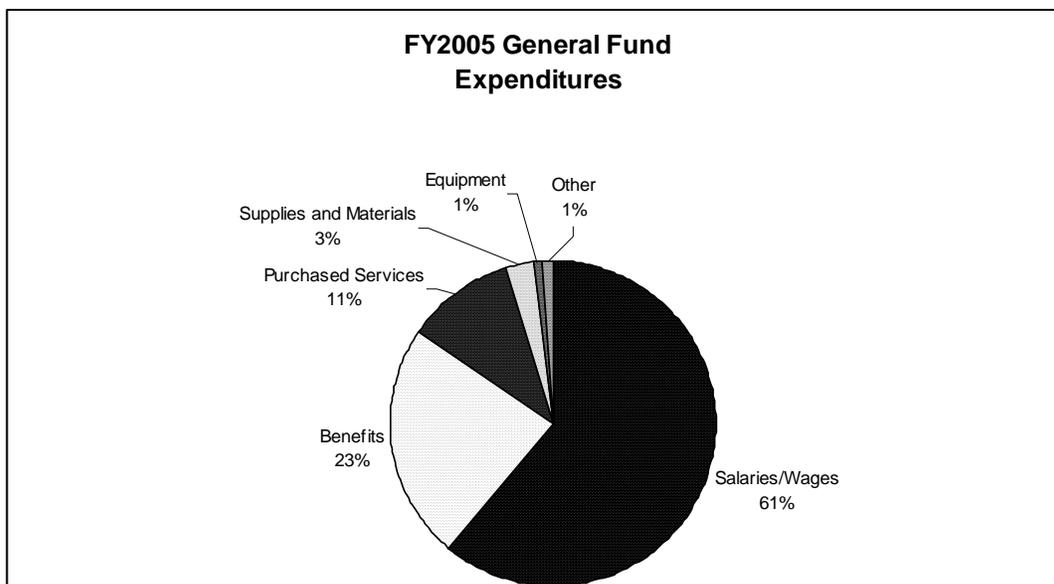
MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Unaudited

The two largest sources of revenue are State Foundation/Reimbursements and local property taxes. State Foundation and Reimbursements make up 53% of total General Fund (operating) revenue. Revenues from state sources declined by \$233,658 or 3.14%, despite a 2.2% increase in per pupil funding. The decline in student enrollment was a major factor causing the decline in state funding. 2004-05 student enrollment declined by over 70 students or 4.0% of the 2003-04 funding enrollment. A second major factor effecting state support was phantom revenue. In 2004-05, district Assessed Valuations increased by almost 6.4 million dollars, resulting in an increase in formula charge off of \$147,000 and a decrease in state funding of \$147,000. This \$147,000 is not realized through local income.

Milton-Union's second largest source (38%) of General Fund revenue is local Property Tax collections. Due to HB920, property tax collections, generally, remain relatively static unless new millage is passed. The exception to this general rule has been Tangible Personal Property Tax collections. The state legislature has been reducing the assessed value of portions of Tangible Personal Property, such as public utility tangible property and inventory. Inventory assessed rate is scheduled to decline by eight (8) percent annually until the assessed rate reaches zero (0). The effect of the reduction in Tangible Personal Property collections will be a decline in overall property tax collections over the next few years.



Total General Fund expenditures increased by 1.36% over 2003-2004. Approximately 84 percent of Milton-Union operating expenses in fiscal year 2005 were for salaries and benefits. The Base Salary increased by 4% in FY05, but total salary expenditures increased by 3.5%. Benefit costs increased 3.1 percent. Benefits remained approximately 38 percent of salaries. In FY05, Medical Self Insurance Maximum Liability increased by 4% over FY04. However actual medical claims were significantly above the maximum liability and the trust fund balanced declined to about \$90,000. The district expects to receive over \$100,000 in Specific and Aggregate liability insurance reimbursement. The district changed to the Southwest Ohio Educational Purchasing Cooperative insurance pool, effective 7/1/2005, in attempt to control health insurance costs. Contracted services expenditures were held at 2004 levels through service cuts. Supply and material expenditures increased by 18.6 percent. The district spent more in almost every category. Some of the larger dollar increases were in vehicle fuel, text book purchases, and general office supplies. Equipment purchases decreased by 36% in 2004-05.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30,2005***

Unaudited

In conclusion, Milton-Union School District's management faces significant financial challenges, but has committed itself to financial stability in the future.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Charles M. Klein, Treasurer of Milton-Union Exempted Village School District.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

This Page Intentionally Left Blank

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Statement of Net Assets
June 30,2005

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 1,166,675
Investments	2,301,307
Receivables:	
Taxes	5,537,790
Accounts	75,141
Intergovernmental	68,127
Interest	4,817
Inventory of Supplies at Cost	24,032
Prepaid Items	35,098
Restricted Assets:	
Cash and Cash Equivalents	14,029
Capital Assets, Net	4,562,572
Total Assets	13,789,588
Liabilities:	
Accounts Payable	101,812
Accrued Wages and Benefits	1,262,405
Intergovernmental Payable	348,941
Claims Payable	88,550
Deferred Revenue - Taxes	5,002,905
Long Term Liabilities:	
Due Within One Year	81,955
Due in More Than One Year	1,011,626
Total Liabilities	7,898,194
Net Assets:	
Invested in Capital Assets, Net of Related Debt	4,469,768
Restricted For:	
Capital Projects	330,723
Unrestricted	1,090,903
Total Net Assets	\$ 5,891,394

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Statement of Activities
For the Fiscal Year Ended June 30, 2005

		Program Revenues			Net (Expense)
		Charges for	Operating	Capital Grants	Revenue and
		Services and	Grants and	and	and Changes in
		Sales	Contributions	Contributions	Net Assets
	Expenses				Governmental
					Activities
Governmental Activities:					
Instruction	\$ 8,209,156	\$ 704,753	\$ 494,813	\$ 0	\$ (7,009,590)
Support Services:					
Pupils	714,010	0	18,259	0	(695,751)
Instructional Staff	768,032	0	102,785	0	(665,247)
Board of Education	64,451	0	0	0	(64,451)
Administration	1,050,662	0	126,223	0	(924,439)
Fiscal Services	401,469	0	164	0	(401,305)
Business	155,621	0	236	0	(155,385)
Operation and Maintenance of Plant	918,333	0	1,468	3,712	(913,153)
Pupil Transportation	806,733	94,069	14,064	0	(698,600)
Central	410,907	0	14,361	0	(396,546)
Operation of Non-Instructional Services	365,876	323,294	178,836	0	136,254
Extracurricular Activities	513,257	195,229	3,077	0	(314,951)
Interest and Fiscal Charges	1,088	0	0	0	(1,088)
Total Governmental Activities	\$ 14,379,595	\$ 1,317,345	\$ 954,286	\$ 3,712	(12,104,252)
General Revenues					
Property Taxes Levied for:					
					5,315,937
					361,930
					7,062,266
					86,571
					44,193
					<u>12,870,897</u>
					766,645
					5,124,749
					<u>\$ 5,891,394</u>

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and Cash Equivalents	\$ 613,087	\$ 463,319	\$ 1,076,406
Investments	2,301,307	0	2,301,307
Receivables:			
Taxes	5,185,529	352,261	5,537,790
Accounts	20,341	722	21,063
Intergovernmental	50	68,077	68,127
Interest	4,817	0	4,817
Interfund Loan Receivable	7,424	7,000	14,424
Inventory of Supplies at Cost	19,521	4,511	24,032
Prepaid Items	30,616	4,482	35,098
Restricted Assets:			
Cash and Cash Equivalents	14,029	0	14,029
Total Assets	<u><u>\$ 8,196,721</u></u>	<u><u>\$ 900,372</u></u>	<u><u>\$ 9,097,093</u></u>
Liabilities:			
Accounts Payable	\$ 80,326	\$ 21,486	\$ 101,812
Accrued Wages and Benefits	1,191,156	71,249	1,262,405
Intergovernmental Payable	318,215	30,726	348,941
Interfund Loans Payable	0	14,424	14,424
Deferred Revenue - Taxes	4,772,974	324,305	5,097,279
Deferred Revenue	0	10,113	10,113
Total Liabilities	<u><u>6,362,671</u></u>	<u><u>472,303</u></u>	<u><u>6,834,974</u></u>
Fund Balances:			
Reserved for Encumbrances	132,271	12,945	145,216
Reserved for Prepaid Items	30,616	4,482	35,098
Reserved for Supplies Inventory	19,521	4,511	24,032
Reserved for Property Taxes	394,564	26,714	421,278
Reserved for Budget Stabilization	14,029	0	14,029
Unreserved, Undesignated in:			
General Fund	1,243,049	0	1,243,049
Special Revenue Funds	0	82,228	82,228
Capital Projects Funds	0	297,189	297,189
Total Fund Balances	<u><u>1,834,050</u></u>	<u><u>428,069</u></u>	<u><u>2,262,119</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 8,196,721</u></u>	<u><u>\$ 900,372</u></u>	<u><u>\$ 9,097,093</u></u>

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
June 30,2005***

Total Governmental Fund Balances	\$ 2,262,119
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	4,562,572
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	104,487
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	55,797
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,093,581)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$ 5,891,394</u></u>

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 5,323,726	\$ 362,502	\$ 5,686,228
Tuition	608,420	96,333	704,753
Transportation Fees	94,069	0	94,069
Investment Earnings	86,418	153	86,571
Extracurricular Activities	0	195,229	195,229
Food Services	0	323,294	323,294
Intermediate Sources	0	1,170	1,170
Intergovernmental - State	7,047,323	140,893	7,188,216
Intergovernmental - Federal	11,881	820,118	831,999
All Other Revenue	11,865	22,375	34,240
Total Revenue	13,183,702	1,962,067	15,145,769
Expenditures:			
Current:			
Instruction	7,388,507	587,953	7,976,460
Supporting Services:			
Pupils	706,657	2,863	709,520
Instructional Staff	703,257	102,533	805,790
Board of Education	64,336	0	64,336
Administration	973,452	127,859	1,101,311
Fiscal Services	396,734	6,421	403,155
Business	158,277	237	158,514
Operation & Maintenance of Plant	825,307	84,477	909,784
Pupil Transportation	751,411	66,919	818,330
Central	282,074	122,272	404,346
Operation of Non-Instructional Services	0	499,732	499,732
Extracurricular Activities	267,384	190,394	457,778
Capital Outlay	0	266,455	266,455
Debt Service:			
Principal Retirement	0	57,500	57,500
Interest & Fiscal Charges	0	3,381	3,381
Total Expenditures	12,517,396	2,118,996	14,636,392
Excess (Deficiency) of Revenues Over Expenditures	666,306	(156,929)	509,377
Other Financing Sources (Uses):			
Transfers In	0	60,418	60,418
Transfers Out	(60,418)	0	(60,418)
Refund of P/Y Expenditures	7,443	2,841	10,284
Refund of P/Y Receipts	0	(331)	(331)
Total Other Financing Sources (Uses)	(52,975)	62,928	9,953
Net Change in Fund Balance	613,331	(94,001)	519,330
Fund Balances at Beginning of Year	1,218,713	521,821	1,740,534
Increase in Inventory Reserve	2,006	249	2,255
Fund Balances End of Year	\$ 1,834,050	\$ 428,069	\$ 2,262,119

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30,2005***

Net Change in Fund Balances - Total Governmental Funds \$ 519,330

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 123,927

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets net of proceeds received. (12,220)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (7,227)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 84,534

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 2,293

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. 95,256

The internal service funds are used by management to charge the costs of services to individual funds is not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities. (39,248)

Change in Net Assets of Governmental Activities \$ 766,645

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive Negative
Revenues:				
Local Sources:				
Taxes	\$ 5,020,093	\$ 5,066,027	\$ 5,066,026	\$ (1)
Tuition	496,900	595,113	612,186	17,073
Transportation Fees	130,000	130,000	95,918	(34,082)
Investment Earnings	50,000	85,013	85,922	909
Intergovernmental - State	7,225,609	7,037,617	7,047,323	9,706
Intergovernmental - Federal	18,800	22,694	22,197	(497)
All Other Revenues	4,500	10,392	10,512	120
Total Revenues	<u>12,945,902</u>	<u>12,946,856</u>	<u>12,940,084</u>	<u>(6,772)</u>
Expenditures:				
Current:				
Instructional Services:				
Regular	6,102,445	6,181,381	6,061,916	119,465
Special	1,123,464	1,171,923	1,034,558	137,365
Vocational	266,268	301,474	301,902	(428)
Other	72,950	72,950	61,719	11,231
Support Services:				
Pupils	724,377	715,775	704,837	10,938
Instructional Staff	640,665	690,450	677,811	12,639
Board of Education	90,307	103,953	98,492	5,461
Administration	972,313	984,004	959,655	24,349
Fiscal Services	396,138	403,417	393,060	10,357
Business	144,678	176,730	176,729	1
Operation and Maintenance of Plant	845,662	907,613	878,691	28,922
Pupil Transportation	735,430	766,637	762,456	4,181
Central	274,569	289,064	289,064	0
Extracurricular Activities	253,559	262,063	261,925	138
Total Expenditures	<u>12,642,825</u>	<u>13,027,434</u>	<u>12,662,815</u>	<u>364,619</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	303,077	(80,578)	277,269	357,847
Other Financing Sources (Uses):				
Operating Transfers Out	(60,939)	(60,418)	(60,418)	0
Advances In	175,200	175,200	175,200	0
Advances Out	0	(7,424)	(7,424)	0
Refund of Prior Year's Expenditures	46,500	142,834	142,983	149
Total Other Financing Sources (Uses):	<u>160,761</u>	<u>250,192</u>	<u>250,341</u>	<u>149</u>
Net Change in Fund Balance	463,838	169,614	527,610	357,996
Fund Balance at Beginning of Year	2,008,402	2,008,402	2,008,402	0
Prior Year Encumbrances	180,448	180,448	180,448	0
Fund Balance at End of Year	<u>\$ 2,652,688</u>	<u>\$ 2,358,464</u>	<u>\$ 2,716,460</u>	<u>\$ 357,996</u>

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Statement of Net Assets
Proprietary Funds
June 30,2005

	Governmental Activities - Internal Service Funds
Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 90,269
Receivables:	
Accounts	54,078
Total Assets	<u>144,347</u>
Liabilities:	
<i>Current Liabilities:</i>	
Claims Payable	88,550
Total Liabilities	<u>88,550</u>
Net Assets:	
Unrestricted	55,797
Total Net Assets	<u>\$ 55,797</u>

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30,2005

	Governmental Activities - Internal Service Funds
Operating Revenues:	
Charges for Service	\$ 1,955,106
Total Operating Revenues	<u>1,955,106</u>
Operating Expenses:	
Contractual Services	2,062,533
Total Operating Expenses	<u>2,062,533</u>
Operating Loss	(107,427)
Nonoperating Revenue (Expenses):	
Refund of Prior Years Expenses	68,179
Total Nonoperating Revenues (Expenses)	<u>68,179</u>
Change in Net Assets	(39,248)
Net Assets Beginning of Year	95,045
Net Assets End of Year	<u>\$ 55,797</u>

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2005

	Governmental Activities Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Charges	\$1,969,207
Cash Payments for Goods and Services	<u>(2,141,503)</u>
Net Cash Used by Operating Activities	<u>(172,296)</u>
Net Decrease in Cash and Cash Equivalents	(172,296)
Cash and Cash Equivalents at Beginning of Year	<u>262,565</u>
Cash and Cash Equivalents at End of Year	<u><u>\$90,269</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used by Operating Activities:</u>	
Operating Loss	(\$107,427)
Adjustments to Reconcile Operating Loss to	
Net Cash Used by Operating Activities:	
Refund of Prior Years' Expenses	68,179
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(51,598)
Decrease in Claims Payable	<u>(81,450)</u>
Total Adjustments	<u>(64,869)</u>
Net Cash Used by Operating Activities	<u><u>(\$172,296)</u></u>

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Statement of Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust			
	<u>Special Trust Fund</u>	<u>District Agency Fund</u>	<u>Student Activity Fund</u>	<u>Total</u>
Assets:				
Cash and Cash Equivalents	\$ 9,223	\$ 8,878	\$ 34,300	\$ 52,401
Investments	<u>50,355</u>	<u>0</u>	<u>0</u>	<u>50,355</u>
Total Assets	<u>59,578</u>	<u>8,878</u>	<u>34,300</u>	<u>102,756</u>
Liabilities:				
Due to Others	0	8,878	0	8,878
Due to Students	0	0	34,300	34,300
Total Liabilities	<u>0</u>	<u>8,878</u>	<u>34,300</u>	<u>43,178</u>
Net Assets:				
Unrestricted	<u>59,578</u>	<u>0</u>	<u>0</u>	<u>59,578</u>
Total Net Assets	<u>\$ 59,578</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 59,578</u>

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Statement of Changes in Net Assets

Fiduciary Fund

For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust
	Special Trust Fund
Additions:	
Contributions:	
Private Donations	\$ 16,734
Total Contributions	<u>16,734</u>
Investment Earnings:	
Interest	502
Total Additions	<u>17,236</u>
Deductions:	
Administrative Expenses	8,342
Community Gifts, Awards and Scholarships	<u>15,734</u>
Total Deductions	<u>24,076</u>
Change in Net Assets	(6,840)
Net Assets at Beginning of Year	<u>66,418</u>
Net Assets End of Year	<u><u>\$ 59,578</u></u>

See accompanying notes to the basic financial statements

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Milton-Union Exempted Village School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is governed by a locally elected five member Board of Education (the Board) which provides educational services.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," which requires that the financial statements include all organizations, activities, functions and component units for which the District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization and either the District's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on the District. There were no potential component units that met the criteria imposed by GASB 14 to be included in the District's reporting entity. Based on the foregoing, the reporting entity of the District includes the following services: instructional (regular, special education, vocational), student guidance, extracurricular activities, food service, pupil transportation and care and upkeep of grounds and buildings.

The accounting policies and financial reporting practices of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/ expenses. The various funds are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following is the District's only major governmental fund:

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

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

Proprietary Funds - The proprietary funds are accounted for on a “economic resources” measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of the proprietary funds are included on the balance sheet. The proprietary fund operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District or to other governments on a cost-reimbursement basis.

Fiduciary Funds – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations or other governments and therefore not available to support the District’s own programs. The District’s only trust fund is a private purpose trust that accounts for scholarship programs for students. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operation.

C. Basis of Presentation and Measurement Focus – Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund 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.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation and Measurement Focus – Financial Statements (Continued)

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

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this 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 District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus. The modified accrual basis of accounting is followed by the governmental funds.

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. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Revenue considered susceptible to accrual at fiscal year end includes property taxes, tuition, grants and entitlements, student fees, and interest on investments.

Property taxes measurable as of June 30, 2005, but which are not intended to finance fiscal year 2005 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary and fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the District follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

All funds, other than the agency funds, are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the function level within the General Fund and at the fund level in all other funds. Budgetary modifications may only be made by resolution of the Board of Education.

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20th of each year, for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

Prior to March 15, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2005.

3. Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1st of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1st of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the function level for the General Fund and at the fund level for all other funds. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations (Continued)

the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year with approval of the Board. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results with the final budget, including all amendments and modifications.

4. Lapsing of Appropriations

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

5. Budgetary Basis of Accounting

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on the cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

This space intentionally left blank.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

Net Change in Fund Balance	General Fund
GAAP Basis (as reported)	\$613,331
Increase (Decrease):	
Accrued Revenues at June 30, 2005, received during FY 2006	(445,187)
Accrued Revenues at June 30, 2004, received during FY 2005	504,154
Accrued Expenditures at June 30, 2005, paid during FY 2006	1,589,697
Accrued Expenditures at June 30, 2004, paid during FY 2005	(1,519,179)
FY 2004 Prepaids for FY 2005	27,372
FY 2005 Prepaids for FY 2006	(30,616)
Encumbrances Outstanding	(211,962)
Budget Basis	<u>\$527,610</u>

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the basic financial statements.

The District pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each had maintained its own cash and investment account. See Note 3, "Cash, Cash Equivalents and Investments."

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost. All investment income, including changes in the fair value of investments, are recognized as revenue in the operating statements. Fair value is determined by quoted market prices.

The District has invested funds in the STAR Ohio during 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005. See Note 3, "Cash, Cash Equivalents and Investments."

H. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

I. Capital Assets and Depreciation

Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000.

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

1. Property, Plant and Equipment - Governmental Activities (Continued)

Contributed capital assets are recorded at fair market value at the date received. The District does not possess any infrastructure. Estimated historical costs for governmental activities capital asset values were initially determined in 1994 by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Depreciation

All capital assets, except land, are depreciated. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives (in years)</u>
Land Improvements	5-7
Building and Improvements	20 - 50
Machinery, Equipment, Furniture and Fixtures	4 - 20
Vehicles	3 - 6
Buses	10

J. Long-Term Obligations

Long-Term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bond	General Obligation Bond Retirement Fund
Compensated Absences	General Fund, Food Services Fund
Capital Lease	Permanent Improvement Fund

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," compensated absences are accrued as a liability when an employee's right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Administrators and classified staff who work twelve month contracts are granted vacation leave based on length of service and position. Vacation may accumulate up to a maximum of one and one half times the employee's annual vacation allowance. Sick leave benefits are accrued as a liability using the vesting method. Employees may earn 15 days of sick leave per year. Upon retirement, employees will receive one-third of the accumulated sick leave up to a maximum of 55 days. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

L. Net Assets

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

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

M. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

N. 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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Restricted Assets

Restricted assets represent cash and cash equivalents set aside to establish reserves for textbooks. This reserve is required by state statute.

P. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for inventories of supplies and materials, prepaid items, budget stabilization, and encumbered amounts which have not been accrued at fiscal year end. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriations under state statute.

Q. Estimates

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

R. Prepaid Items

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

S. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are interfund charges for the internal service fund. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

T. 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. The District had no extraordinary or special items during fiscal year 2005.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The respective fund deficits at June 30, 2005 of \$26,651 in the Food Service Fund, \$608 in the Summer Intervention Fund, \$10,167 in the Title VI-B Fund, and \$5,198 in the Chapter I Fund (special revenue) arise from the recognition of expenditures on the modified accrual basis, which are greater than expenditures recognized on the cash basis. A deficit does not exist under the cash basis of accounting.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the District. Such funds must be maintained either as cash in the District treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- 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;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of District cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At fiscal year end the carrying amount of the District's deposits was \$1,213,651 and the bank balance was \$1,450,758. Federal depository insurance covered \$595,000 of the bank balance. The remaining balance of \$855,758 was collateralized with securities held by the pledging institutions.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The District's investments at June 30, 2005 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)		
			less than 1	1-3	3-5
Repurchase Agreements	\$36,400	N/A	\$36,400	\$0	\$0
STAR Ohio	731,350	AAA ^m ¹	731,350	0	0
FNMA	202,604	AAA ^{1,2}	0	0	202,604
FHLB	1,250,762	AAA ^{1,2}	0	150,676 ^a	1,100,086
FHLMC	150,000	AAA ^{1,2}	99,819	0	50,181
Total Investments	<u>\$2,371,116</u>		<u>\$867,569</u>	<u>\$150,676</u>	<u>\$1,352,871</u>

¹ Standard & Poor's

² Moody's Investor Service

^a Call Options – December, 2005.

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in one issuer. Of the District's total investments, 8.5% are FNMA, 52.7% are FHLB, and 6.3% are FHLMC.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Financial Statements	\$1,233,105	\$2,351,662
Certificates of Deposit (with maturities of more than 3 months)	748,296	(748,296)
Repurchase Agreements	(36,400)	36,400
STAR Ohio	<u>(731,350)</u>	<u>731,350</u>
Per GASB Statement No. 3	<u>\$1,213,651</u>	<u>\$2,371,116</u>

NOTE 4 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property which is used in business, located in the District. Real property taxes (other than public utility) collected during 2005 were levied after October 1, 2004 on assessed values as of January 1, 2004, the lien date. Assessed values are established by the county auditor at 35 percent of appraised market value. All property is required to be reappraised every six years, and equalization adjustments are made in the third year following reappraisal. The last reappraisal was completed in 2001. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30; with the remainder payable by September 20.

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

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 4 - PROPERTY TAXES (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Milton-Union Exempted Village School District. The County Auditor periodically remits to the District its portion of the taxes collected.

The assessed value upon which the fiscal year 2005 receipts were based are:

	2004 First Half Collections	2005 First Half Collections
Agricultural/Residential and Other Real Estate	\$145,369,480	\$153,505,160
Public Utility Personal	8,019,270	7,743,930
Tangible Personal Property	5,786,920	5,118,180
Total Assessed Value	<u>\$159,175,670</u>	<u>\$166,367,270</u>
Tax rate per \$1,000 of assessed valuation	\$69.38	\$69.38

NOTE 5 - RECEIVABLES

Receivables at June 30, 2005, consisted of taxes, interest, accounts receivable and intergovernmental receivables.

NOTE 6 - TRANSFERS

Following is a summary of transfers in and out for all funds for the fiscal year 2005:

Fund	Transfer In	Transfer Out
General Fund	\$0	\$60,418
Other Governmental Funds	60,418	0
Total All Funds	<u>\$60,418</u>	<u>\$60,418</u>

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Following is a summary of interfund receivables and payables for all funds at June 30, 2005:

Fund	Interfund Loan Receivables	Interfund Loan Payables
General Fund	\$7,424	\$0
Other Governmental Funds	7,000	14,424
Totals	<u>\$14,424</u>	<u>\$14,424</u>

These interfund loans are short-term loans to cover temporary cash deficits.

NOTE 8 - CAPITAL ASSETS

Summary by category of changes in governmental activities capital assets at June 30, 2005:

Historical Cost:

Class	June 30, 2004	Additions	Deletions	June 30, 2005
Capital assets not being depreciated:				
Land	\$107,448	\$0	\$0	\$107,448
Construction in Progress	0	121,194	0	121,194
Capital assets being depreciated:				
Land Improvements	234,144	89,264	0	323,408
Buildings and Improvement	3,999,807	138,819	0	4,138,626
Machinery and Equipment	2,055,086	84,717	(7,856)	2,131,947
Vehicles	1,122,579	75,134	(11,000)	1,186,713
Total Cost	<u>\$7,519,064</u>	<u>\$509,128</u>	<u>(\$18,856)</u>	<u>\$8,009,336</u>

Accumulated Depreciation:

Class	June 30, 2004	Additions	Deletions	June 30, 2005
Land Improvements	(\$103,827)	(\$14,857)	\$0	(\$118,684)
Buildings and Improvement	(1,482,592)	(130,231)	0	(1,612,823)
Machinery and Equipment	(1,106,348)	(172,600)	2,766	(1,276,182)
Vehicles	(375,432)	(67,513)	3,870	(439,075)
Total Depreciation	<u>(\$3,068,199)</u>	<u>(\$385,201) *</u>	<u>\$6,636</u>	<u>(\$3,446,764)</u>
Net Value:	<u>\$4,450,865</u>			<u>\$4,562,572</u>

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 8 - CAPITAL ASSETS (Continued)

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$181,836
Support Services:	
Pupils	4,409
Instructional Staff	11,110
Board of Education	115
Administration	10,315
Fiscal	3,558
Business	429
Operations & Maintenance of Plant	23,365
Pupil Transportation	73,441
Central	14,697
Operation of Non-Instructional Services	9,657
Extracurricular Activities	52,269
Total Depreciation Expense	<u>\$385,201</u>

NOTE 9 - DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the District, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System of Ohio (SERS of Ohio) (Continued)

The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2005, 10.57% was allocated to fund the pension benefit and 3.43% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2005, 2004, and 2003 were \$268,788, \$256,896, and \$279,667, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply. The portion of the 2005 employer contribution rate that was used to fund health care for the year 2005 was 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2005, the minimum pay has been established as \$27,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$104,687.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 58,123. The target level for the health care reserve is 150% of annual health care expenses before premium deduction. Expenses for health care at June 30, 2005 were \$178,221,113 and the target level was \$267.3 million. Net assets available for payment of benefits at June 30, 2005 were \$267.5 million.

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the District are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090 or by visiting the STRS Ohio Web site at www.strsoh.org.

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.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio) (Continued)

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. 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.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2005, 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2005, 2004, and 2003 were \$857,892, \$841,356, and \$802,848, respectively, which were equal to the required contributions for each year.

STRS provides postemployment health care benefits to retirees who participated in the DB or Combined Plans and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, health care benefits are not guaranteed.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2005, the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Stabilization Fund, which amounted to \$61,278 for the District. The balance of the Health Care Stabilization Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, the net health care costs paid by STRS were \$254,780,000. There were 115,395 eligible benefit recipients.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 10 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

Detail of the changes in the general obligation bond, capital leases and compensated absences of the District for the year ended June 30, 2005 is as follows:

	Balance			Balance	Amount Due
	June 30, 2004	Additions	Deductions	June 30, 2005	Within
					One Year
Governmental Activities:					
General Obligation Bond:					
Energy Conservation - 1994 5.98%	\$57,500	\$0	(\$57,500)	\$0	\$0
Capital Leases Payable	119,838	0	(27,034)	92,804	29,570
Compensated Absences	971,051	1,000,777	(971,051)	1,000,777	52,385
Total Governmental Activities	<u>\$1,148,389</u>	<u>\$1,000,777</u>	<u>(\$1,055,585)</u>	<u>\$1,093,581</u>	<u>\$81,955</u>

NOTE 11 - CAPITALIZED LEASE

The District is obligated under several leases accounted for as capital leases. The cost of the leased assets is accounted for in the Governmental Activities Capital Assets and the related liability in the Governmental Activities Long-Term Obligations. The original cost of the assets under capital lease was \$147,419.

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2005:

Year Ending June 30,	Capital Lease
2006	\$36,722
2007	36,722
2008	29,514
2009	2,841
Minimum Lease Payments	<u>105,799</u>
Less: Amount representing interest at the District's incremental borrowing rate of interest	<u>(12,995)</u>
Present Value of minimum lease payments	<u>\$92,804</u>

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005***

NOTE 12 – STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2005, the reserve activity (cash-basis) was as follows:

	Textbook Reserve	Capital Acquisition Reserve	Total
Set-aside Cash Balance as of June 30, 2004	(\$30,542)	\$0	(\$30,542)
Current Year Set-Aside Requirement	251,368	251,368	502,736
Current Year Offset Credits	0	(412,846)	(412,846)
Qualifying Disbursements	(206,797)	(29,440)	(236,237)
Total	<u>\$14,029</u>	<u>(\$190,918)</u>	<u>(\$176,889)</u>
Cash Balance Carried Forward to FY 2006	<u>\$14,029</u>	<u>\$0</u>	<u>\$14,029</u>
Amount Restricted for Textbook Reserve			<u>\$14,029</u>
Total Restricted Assets			<u>\$14,029</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero, the extra amount for capital acquisition may not be used to reduce the set-aside requirements of future years. Negative amounts for capital acquisition are therefore not presented as being carried forward to the next fiscal year.

NOTE 13 – RELATED ORGANIZATION

The Milton-Union Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Milton-Union Exempted Village School District. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from Milton-Union Public Library, Jerry Kohl, Clerk/Treasurer, at 560 South Main Street, West Milton, Ohio 45383.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 14- RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2005 the District contracted with Indiana Insurance Company for insurance coverage, as follows:

Insurance Provider	Coverage	Deductible
Southwestern Ohio EPC	Property, General Liability, and Errors & Omissions	\$2,500

Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years. There has been no significant reduction in insurance coverages from coverages in the prior year.

Workers' compensation claims are covered through the District's participation in the State of Ohio's program. The District pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

OASBO Sheakley Workers' Compensation Group Rating Plan – The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a fourteen member committee consisting of various GRP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The School District also maintains a limited medical insurance program for employees which was started in fiscal year 2000. Premiums are paid to a third party administrator, Heller Associates Inc. The claims are processed by the third party administrator and monitored by the School District in conjunction with the third party administrator. An internal service fund is presented in the financial statements and reflects premiums paid into the self-insurance fund by other funds which are available to pay claims and administrative costs, and establish claims reserves. The outstanding claims at June 30, 2005, for the medical self-insurance program amounted to \$88,550.

The claims liability reported in the fund at June 30, 2005 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount in 2005 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2004	\$150,000	\$1,943,340	(\$1,923,340)	\$170,000
2005	170,000	2,062,533	(2,143,983)	88,550

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

Southwestern Ohio Educational Purchasing Council – The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General fund. During fiscal year 2005, the school district paid \$1,279 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association – The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties shall elect two representatives per area. All others shall elect one representative per area. All superintendents except for those from educational service centers vote on the representatives after the nominating committee nominates individuals to run. One at-large non-public service representative shall be elected by the non-public school SOITA members as the State assigned SOITA service area. One at-large higher education representative shall be elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state of local government for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2005, the School District paid \$1,104 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

Miami Valley Career Technology Center – The Miami Valley Career Technology Center 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 fifteen participating school districts' elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following city and/or exempted village school districts: Carlisle, Miamisburg, Milton-Union, Northmont, Vandalia, Versailles, Huber Heights, Eaton, Trotwood, Tipp City, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center, one is appointed from the Miami County Educational Service Center, one from the Darke County Educational Service Center, and one from the Preble County Educational Service Center. During fiscal year 2005, the School District paid no monies to this organization. To obtain financial information, write to the Miami Valley Career Technology Center, Debbie Gossett, who serves as Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

There were currently no matters in litigation with the District as defendant.

C. State School Funding

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 its future State funding and on its financial operations.

**MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$31,577		\$31,577
National School Breakfast Program	05PU-2004	10.553	\$2,025		\$2,025	
	05PU-2005		7,628		7,628	
Total National School Breakfast Program			9,653		9,653	
National School Lunch Program	LL-P4-2004	10.555	29,908		29,908	
	LL-P4-2005		95,590		95,590	
Total National School Lunch Program			125,498	31,577	125,498	31,577
Total U.S. Department of Agriculture			135,151	31,577	135,151	31,577
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Education Agencies (ESEA Title II)	C1-S1 2004	84.010	(49)		1,470	
	C1-S1 2005		187,314		187,314	
Total Grants to Local Education Agencies (ESEA Title II)			187,264		188,784	
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-SD 2004-P	84.027	6,639		5,400	
	6B-SD 2005-P		18,131		16,791	
	6B-SF 2004		1,714		1,714	
	6B-SF 2005		323,759		298,399	
			348,529		322,304	
Preschool Grants	PGS1-2005	84.173	3,802		3,802	
Total Special Education Cluster			352,331		326,106	
Drug-Free Schools Grant	DR-S1 2005	84.186	741		915	
Innovative Educational Program Strategies	C2-S1 2004	84.298	167		2,107	
	C2-S1 2005		7,260		11,373	
Total Innovative Educational Program Strategies			7,427		13,480	
Technology Literacy Challenge Grant	TJS1 2005	84.318	496		580	
Improving Teacher Quality Grant	TRS1 2004	84.367			11,778	
	TRS1 2005		68,399		69,499	
Total Improving Teacher Quality Grant			68,399		81,277	
<i>Passed through Ohio School Facilities Commission</i>						
State Improvement Grant	N/A	84.323	5,000		3,744	
School Renovation Grant	N/A	84.352	40,097		81,330	
Total Department of Education			661,755		696,216	
U.S. DEPARTMENT OF HOMELAND SECURITY						
<i>Passed Through Ohio Department of Public Safety</i>						
Disaster Grant - Public Assistance	3198-3M-109-04	97.036	1,710		1,710	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of MRDD</i>						
Medical Assistance Program	N/A	93.778	3,414		3,414	
<i>Passed Through Montgomery County ESC</i>						
Medical Assistance Program	N/A	93.778	10,436		10,436	
Total Medical Assistance Program			13,850		13,850	
State Childrens Insurance Program	N/A	93.767	2,244		2,244	
Total U.S. Department of Health and Human Services			16,094		16,094	
Total Federal Assistance			\$814,710	\$31,577	\$849,171	\$31,577

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

**MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-federal funds (matching funds) to support the federally-funded programs. The District has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

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

Milton-Union Exempted Village School District
Miami County
112 South Spring Street
West Milton, Ohio 45383

To the Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milton-Union Exempted Village School District, Miami County, (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 7, 2006, which was qualified due to a lack of evidential matter related to the expenditures presented on the Statement of Activities and the Remaining Fund Information for the District's self-insurance Internal Service Fund Activity. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2005-001 listed above to be a material weakness. In a separate letter to the District's management dated April 7, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 7, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

April 7, 2006



Auditor of State Betty Montgomery

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

Milton-Union Exempted Village School District
Miami County
112 South Spring Street
West Milton, Ohio 45383

To the Board of Education:

Compliance

We have audited the compliance of Milton-Union Exempted Village School District, Miami County, (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2005. In a separate letter to the District's management dated April 7, 2006, we reported another matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

**Internal Control Over Compliance
(Continued)**

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

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



Betty Montgomery
Auditor of State

April 7, 2006

**MILTON UNION EXEMPTED VILLAGE SCHOOL DISTRICT
MIAMI COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	84.010 - Title I Grant 84.027/84.173 – Special Education Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2005-001

MATERIAL WEAKNESS

Health Insurance Claims Processing

The District has delegated employees' health insurance claims processing, which is a significant accounting function, to Heller and Associates – a third party administrator. Although the District Treasurer reviews the claims register received from Heller and Associates documenting employees involved and the amount of the claim approved for payment, the failure of Heller and Associates to obtain a report on the effectiveness of their claims processing internal control policies and procedures, limits the Districts ability to reasonable determine that health insurance claims have been completely and accurately processed in accordance with the health insurance contract.

We recommend the District implement procedures to reasonably assure completeness and accuracy (including eligibility and allowability) of health insurance claims processed by its third party administrator. Statement on Auditing Standards (SAS) No. 70 as amended by SAS No. 88, prescribes standards for reporting on the processing of transactions by a service organization. An unqualified "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" in accordance with SAS No. 70, should provide the District with an appropriate level of assurance that health insurance claims are being processed in conformance with the contract. Effective 7/1/05 the District discontinued their self-insurance program and contracted with a private carrier.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

MILTON-UNION EXEMPTED VILLAGE SCHOOL DISTRICT

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2006**