

**Liberty Union-Thurston  
Local School District**

Fairfield County, Ohio

Single Audit

June 30, 2006





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Liberty Union-Thurston Local School District  
621 Washington Street  
Baltimore, Ohio 43105

We have reviewed the *Independent Auditor's Report* of the Liberty Union-Thurston Local School District, Fairfield County, prepared by Kennedy, Cottrell + Associates, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Liberty Union-Thurston Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 8, 2007

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**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY, OHIO**

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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Liberty Union-Thurston Local School District  
621 Washington Street  
Baltimore, OH 43015

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Liberty Union-Thurston Local School District, Fairfield County, Ohio (the District) as of and for the year ended June 30, 2006, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, 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 January 5, 2007, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Kennedy, Cottrell + Associates LLC*

Kennedy, Cottrell + Associates  
Columbus, Ohio  
January 5, 2007

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)*

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The discussion and analysis of the Liberty Union-Thurston Local School District's financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statements No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**Financial Highlights**

- ▶ The assets of Liberty Union-Thurston Local School District exceeded its liabilities at June 30, 2006 by \$6,256,262. This balance was comprised of a \$4,970,858 balance in capital assets, net of related debt and net asset amounts restricted for specific purposes and a balance of \$1,285,404 in unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$666,516, which represents a 12.09 percent increase from 2005.
- ▶ General revenues accounted for \$11,972,753 or 90.23 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,295,807 or 9.77 percent of total revenues of \$13,268,560.
- ▶ The District had \$12,602,044 in expenses related to governmental activities; only \$1,295,807 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$11,972,753 were used to provide for these programs.
- ▶ The District recognizes three major governmental funds: the General, Building and Bond Retirement Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$11,062,662 in revenues and \$10,210,889 in expenditures in fiscal year 2006.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Liberty Union-Thurston Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.



**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)*

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**Reporting the District as a Whole**

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The statement of net assets and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some item that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

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

**Fund Financial Statements**

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's three major governmental funds are the General, Building and Bond Retirement Funds.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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(Unaudited)*

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A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of three categories: governmental, proprietary and fiduciary funds.

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. 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.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Proprietary Funds**

The District's only proprietary funds are internal service funds. Since internal service funds operate on a break-even, cost-reimbursement basis, the District reports them as proprietary funds using the accrual basis of accounting.

**Fiduciary Funds**

The District's fiduciary funds are agency funds. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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(Unaudited)*

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**Government-Wide Financial Analysis**

Recall that the statement of net assets provides the perspective of the District as a whole, showing assets, liabilities, and the difference between them (net assets). Table 1 provides a summary of the District's net assets for 2006 compared to fiscal year 2005:

Table 1  
**Net Assets**

|   | <u>Governmental Activities</u> |                    |
|---|--------------------------------|--------------------|
|   | <u>2006</u>                    | <u>2005</u>        |
| <u>Assets:</u>                                  |                                |                    |
| Current and Other Assets                        | \$9,739,871                    | \$8,770,869        |
| Capital Assets, Net                             | 9,653,848                      | 10,312,091         |
| <i>Total Assets</i>                             | <u>19,393,719</u>              | <u>19,082,960</u>  |
| <u>Liabilities:</u>                             |                                |                    |
| Long-Term Liabilities                           | 8,690,082                      | 9,061,438          |
| Other Liabilities                               | 4,447,375                      | 4,507,863          |
| <i>Total Liabilities</i>                        | <u>13,137,457</u>              | <u>13,569,301</u>  |
| <u>Net Assets:</u>                              |                                |                    |
| Invested in Capital Assets, Net of Related Debt | 1,888,848                      | 2,152,091          |
| Restricted                                      | 3,082,010                      | 3,013,863          |
| Unrestricted                                    | 1,285,404                      | 347,705            |
| <i>Total Net Assets</i>                         | <u>\$6,256,262</u>             | <u>\$5,513,659</u> |

Current and other assets increased \$969,002 from fiscal year 2005 due to a decrease in cash and cash equivalents held by the District.

Current (other) liabilities decreased \$60,488 or 1.34 percent, which is mostly due to the elimination of retainage payable.

Long-term liabilities decreased \$371,356 due to scheduled payments made for long-term debt.

The District's largest portion of net assets is restricted. The restricted net assets are subject to external restrictions on how they may be used.

The District's smallest portion of net assets is unrestricted assets. These net assets represent resources that may be used to meet the District's ongoing obligations to its students and creditors.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

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The remaining balance of \$1,888,848 is invested in capital assets, net of related debt. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

Table 2 shows the changes in net assets for fiscal year 2006 and comparisons to fiscal year 2005.

Table 2  
**Changes in Net Assets**

|                                      | <b>Governmental Activities</b> |                   |
|--------------------------------------|--------------------------------|-------------------|
|                                      | <u>2006</u>                    | <u>2005</u>       |
| <b><u>Revenues:</u></b>              |                                |                   |
| <i>Program Revenue:</i>              |                                |                   |
| Charges for Services and Sales       | \$531,120                      | \$550,410         |
| Operating Grants and Contributions   | 748,456                        | 732,919           |
| Capital Grants and Contributions     | 16,231                         | 0                 |
| <i>General Revenue:</i>              |                                |                   |
| Property Taxes                       | 3,548,688                      | 3,660,727         |
| Income Taxes                         | 1,934,120                      | 1,713,196         |
| Unrestricted Grants and Entitlements | 5,816,121                      | 5,717,012         |
| Unrestricted Tuition and Fees        | 390,165                        | 260,294           |
| Gifts and Donations                  | 0                              | 78,085            |
| Investment Earnings                  | 185,721                        | 90,280            |
| Miscellaneous                        | 97,938                         | 168,068           |
| <i>Total Revenues</i>                | <u>13,268,560</u>              | <u>12,970,991</u> |
| <b><u>Expenses:</u></b>              |                                |                   |
| <i>Program Expenses:</i>             |                                |                   |
| <i>Instruction:</i>                  |                                |                   |
| Regular                              | 5,361,017                      | 6,188,139         |
| Special                              | 1,148,556                      | 1,320,088         |
| Vocational                           | 433,215                        | 447,167           |
| Other                                | 26,708                         | 0                 |

(Continued)

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)*

Table 2  
**Changes in Net Assets**

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|   | <u>2006</u>               | <u>2005</u>               |
|---|---------------------------|---------------------------|
| <i>Support Services:</i>                        |                           |                           |
| Pupils  | 525,012                   | 487,536                   |
| Instructional Staff                             | 561,517                   | 599,018                   |
| Board of Education                              | 91,792                    | 78,650                    |
| Administration                                  | 939,393                   | 958,404                   |
| Fiscal  | 441,187                   | 349,896                   |
| Operation and Maintenance of Plant              | 1,150,938                 | 1,244,988                 |
| Pupil Transportation                            | 569,168                   | 567,496                   |
| <i>Operation of Non-Instructional Services:</i> |                           |                           |
| Food Service                                    | 470,108                   | 484,324                   |
| Community Service                               | 0                         | 17                        |
| Extracurricular Activities                      | 539,382                   | 408,475                   |
| Interest and Fiscal Charges                     | <u>344,051</u>            | <u>359,180</u>            |
| <i>Total Expenses</i>                           | <u>12,602,044</u>         | <u>13,493,378</u>         |
| <i>Change in Net Assets</i>                     | 666,516                   | (522,387)                 |
| Net Assets – Beginning of Year                  | <u>5,589,746</u>          | <u>6,112,133</u>          |
| Net Assets – End of Year                        | <u><u>\$6,256,262</u></u> | <u><u>\$5,589,746</u></u> |

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)*

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The most significant program expenses for the District are Regular Instruction, Operation and Maintenance of Plant, Special Instruction, and Administration. These programs account for 68.24 percent of the total governmental activities. Regular Instruction, which accounts for 42.54 percent of the total, represents costs associated with providing general educational services. Operation and Maintenance of Plant, which represents 9.13 percent of the total, represents costs associated with the operating and maintaining the District's facilities. Special Instruction, which represents 9.11 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration, which represents 7.46 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole.

As noted previously, the net assets for the governmental activities increased \$666,516 or 12.09 percent. This is a change from last year when net assets decreased \$541,487 or 8.94 percent. Total revenues increased \$297,569 or 2.29 percent over last year and expenses decreased \$891,334 or 6.61 percent.

The District had program revenue increases of \$12,748, as well as increases in general revenues of \$285,091. There were two significant increases in general revenues. Income taxes increased \$223,924 or 13.07 percent and unrestricted tuition and fees increased \$129,871 or 49.89 percent over last year.

The total expenses for governmental activities decreased due mostly to a decrease in regular instruction. The remaining difference is due to normal decreases in expenses.

The majority of the funding for the most significant programs indicated above is from property taxes and grants and entitlements not restricted for specific programs. Property taxes and grants and entitlements not restricted for specific programs account for 70.58 percent of total revenues.

### **Governmental Activities**

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 26.80 percent and intergovernmental revenue made up 43.92 percent of the total revenue for the governmental activities in fiscal year 2006.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District's 2.0 mill Permanent Improvement Levy is an important piece of the financial picture. It funds not only facility maintenance and upkeep issues but also provides the bulk of the District's technology needs and a large percentage of the State's set-aside requirements for both textbooks and instructional materials and capital improvements.

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The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2006, the District received \$5,315,070 through the State's foundation program, which represents 40.14 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 55.30 percent of governmental activities program expenses. Support services expenses make up 33.95 percent of governmental activities program expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2006 and comparisons to fiscal year 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3  
**Net Cost of Governmental Activities**

|   | Total Cost of Services |                     | Net Cost of Services |                     |
|---|------------------------|---------------------|----------------------|---------------------|
|   | 2006                   | 2005                | 2006                 | 2005                |
| <i>Program Expenses:</i>                |                        |                     |                      |                     |
| Instruction                             | \$6,969,496            | \$7,955,394         | \$6,481,277          | \$7,353,830         |
| Support Services                        | 4,279,007              | 4,285,988           | 4,204,294            | 4,210,906           |
| Operation of Non-Instructional Services | 470,108                | 484,341             | 20,359               | 87,790              |
| Extracurricular Activities              | 539,382                | 408,475             | 256,256              | 198,343             |
| Interest and Fiscal Charges             | 344,051                | 359,180             | 344,051              | 359,180             |
| Total Expenses                          | <u>\$12,602,044</u>    | <u>\$13,493,378</u> | <u>\$11,306,237</u>  | <u>\$12,210,049</u> |

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues of \$13,368,959 and expenditures of \$12,426,490.

Total governmental funds fund balance increased by \$942,469. The increase in fund balance for the year was most significant in the General Fund. The fund balance of the General Fund increased \$851,773 due to an increase in revenue and decrease in expenditures.

The District should remain stable in fiscal years 2007 through 2009. However, projections beyond fiscal year 2009 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
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(Unaudited)*

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**Budget Highlights - General Fund**

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

During the course of fiscal year 2006, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's flexibility for site management.

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budget basis revenue was \$10,998,032 representing an increase of \$444,055 from the original budget estimate of \$10,553,977. For the General Fund, the final budget basis expenditures were \$10,322,879 representing a decrease of \$515 from the original budget expenditures of \$10,323,394.



**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)*

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**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2006, the District had \$21.0 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$11.4 million. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005.

Table 4  
**Capital Assets & Accumulated Depreciation at June 30, 2006**

|                                       | <b>Governmental Activities</b> |                     |
|---------------------------------------|--------------------------------|---------------------|
|                                       | <b>2006</b>                    | <b>2005</b>         |
| <i>Nondepreciable Capital Assets:</i> |                                |                     |
| Land                                  | \$595,953                      | \$595,953           |
| <i>Depreciable Capital Assets:</i>    |                                |                     |
| Land Improvements                     | 1,027,048                      | 1,027,048           |
| Buildings and Improvements            | 17,041,118                     | 17,041,118          |
| Furniture, Fixtures and Equipment     | 634,219                        | 611,291             |
| Vehicles                              | 964,968                        | 964,968             |
| Library and Textbooks                 | 770,652                        | 770,652             |
| <i>Total Capital Assets</i>           | <u>21,033,958</u>              | <u>21,011,030</u>   |
| <i>Less Accumulated Depreciation:</i> |                                |                     |
| Land Improvements                     | (586,753)                      | 546,189             |
| Buildings and Improvements            | (8,870,067)                    | 8,438,148           |
| Furniture, Fixtures and Equipment     | (454,293)                      | 419,474             |
| Vehicles                              | (827,287)                      | 781,860             |
| Library and Textbooks                 | (641,710)                      | 513,268             |
| <i>Total Accumulated Depreciation</i> | <u>(11,380,110)</u>            | <u>10,698,939</u>   |
| Capital Assets, Net                   | <u>\$9,653,848</u>             | <u>\$10,312,091</u> |

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)*

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

**Debt Administration**

At June 30, 2006, the District had \$7,765,000 in general obligation debt outstanding with \$395,000 due within one year. Table 5 summarizes bonds outstanding for fiscal year 2006 compared to fiscal year 2005.

Table 5  
**Outstanding Debt, Governmental Activities at Year End**

| Purpose          | 2006        | 2005        |
|------------------|-------------|-------------|
| Remodeling Bonds | 540,000     | \$675,000   |
| Renovation Bonds | 7,225,000   | 7,485,000   |
| Total            | \$7,765,000 | \$8,160,000 |

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

**Current Issues**

Although considered a mid-wealth district, Liberty Union-Thurston Local School District is financially stable, and has been over the past several years. As indicated in the preceding financial information, the District is dependent on property taxes. Property tax revenue does not increase solely as a result of inflation. The district also has two income tax issues. A 1.25% issue was passed in May, 1991 and the second issue was passed in May, 2005. They generate about \$ 2,000,000 per year. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the District to provide a quality education for our students.

As indicated in the preceding financial information, the District relies on the State's foundation program for nearly half of their funding. In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court now has two new Justices and the new court may be called upon to address the issue. At this time there can be no reasonable estimate of the decision or its impact on school funding.

As of the date of these financial statements, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)*

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The State Legislature has also made several significant changes impacting local taxes:

In 2006 the Ohio Legislature modified the provisions of the 1999 HB283. This bill was designed to reduce the assessed valuation of the inventory component of personal property tax from 25 percent to 0 percent by 2031. The modification speeds up the reduction of assessed valuation to be completed in half the original time.

Effective May 1, 2001 a kilowatt hour (KWH) tax began being collected. 37.8 percent of these new dollars would be deposited in a new Property Tax Replacement Fund (PTRF). 70 percent of the PTRF will be paid to school districts that lost revenue as determined by the Ohio Department of Taxation. First, distribution will be made to cover costs of fixed sum levies such as debt issues and emergency levies. Next, fixed rate levies would be replaced through 2006; after this a phase out formula would begin.

The Liberty Union-Thurston Local School District does not anticipate any meaningful growth or loss in revenue as a result of these changes. Based on these factors, the Board of Education and the administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District.

Residential growth has not eluded the District over the past few years. Increasing numbers of housing developments are being approved by the townships. The new developments are attracting young families to the area as evidenced by the residential permits issued in the townships. Residential/agricultural property contributes 91 percent of the District's real estate valuation.

The District voters approved an income tax levy of 0.5 percent in May 2005. This levy is to offset the lack of state funding. This levy is in addition to the 1.25 percent income tax assessed in previous years.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Dave Butler, Treasurer of Liberty Union-Thurston Local School Board of Education, 621 Washington Street, Baltimore, Ohio 43105.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Statement of Net Assets*

*June 30, 2006*

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|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b><u>Assets:</u></b>                           |                                    |
| Equity in Pooled Cash and Cash Equivalents      | \$5,308,501                        |
| Property Taxes Receivable                       | 3,753,303                          |
| Income Taxes Receivable                         | 668,378                            |
| Accounts Receivable                             | 5,079                              |
| Inventory Held for Resale                       | 4,610                              |
| Nondepreciable Capital Assets                   | 595,953                            |
| Depreciable Capital Assets, Net                 | <u>9,057,895</u>                   |
| <br><i>Total Assets</i>                         | <br><u>19,393,719</u>              |
| <br><b><u>Liabilities:</u></b>                  |                                    |
| Accounts Payable                                | 36,673                             |
| Accrued Wages and Benefits                      | 894,808                            |
| Intergovernmental Payable                       | 266,780                            |
| Accrued Interest Payable                        | 28,189                             |
| Matured Compensated Absences Payable            | 31,154                             |
| Deferred Revenue                                | 3,148,646                          |
| Claims Payable                                  | 41,125                             |
| <i>Long-Term Liabilities:</i>                   |                                    |
| Due within One Year                             | 605,470                            |
| Due in More Than One Year                       | <u>8,084,612</u>                   |
| <br><i>Total Liabilities</i>                    | <br><u>13,137,457</u>              |
| <br><b><u>Net Assets:</u></b>                   |                                    |
| Invested in Capital Assets, Net of Related Debt | 1,888,848                          |
| <i>Restricted for:</i>                          |                                    |
| Capital Outlay                                  | 2,152,657                          |
| Debt Service                                    | 697,795                            |
| Other Purposes                                  | 231,558                            |
| Unrestricted                                    | <u>1,285,404</u>                   |
| <br><i>Total Net Assets</i>                     | <br><u><u>\$6,256,262</u></u>      |

See accompanying notes to the basic financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2006*

|   | Program Revenues    |                                |                                    | Governmental Activities | Net (Expense) Revenue and Changes in Net Assets |
|---|---------------------|--------------------------------|------------------------------------|-------------------------|---|
|   | Expenses            | Charges for Services and Sales | Operating Grants and Contributions |                         |   |
| <b><u>Governmental Activities:</u></b>                      |                     |                                |                                    |                         |   |
| <i>Instruction:</i>   |                     |                                |                                    |                         |   |
| Regular   | \$5,361,017         | \$0                            | \$73,330                           | \$0                     | (\$5,287,687)                                   |
| Special   | 1,148,556           | 0                              | 414,889                            | 0                       | (733,667)                                       |
| Vocational  | 433,215             | 0                              | 0                                  | 0                       | (433,215)                                       |
| Adult/Continuing  | 26,708              | 0                              | 0                                  | 0                       | (26,708)  |
| <i>Support Services:</i>                                    |                     |                                |                                    |                         |   |
| Pupils  | 525,012             | 0                              | 11,514                             | 0                       | (513,498)                                       |
| Instructional Staff   | 561,517             | 0                              | 16,437                             | 14,464                  | (530,616)                                       |
| Board of Education  | 91,792              | 0                              | 0                                  | 0                       | (91,792)  |
| Administration  | 939,393             | 21,188                         | 9,343                              | 0                       | (908,862)                                       |
| Fiscal  | 441,187             | 0                              | 0                                  | 0                       | (441,187)                                       |
| Operation and Maintenance of Plant                          | 1,150,938           | 0                              | 0                                  | 1,767                   | (1,149,171)                                     |
| Pupil Transportation  | 569,168             | 0                              | 0                                  | 0                       | (569,168)                                       |
| <i>Operation of Non-Instructional Services:</i>             |                     |                                |                                    |                         |   |
| Food Service  | 470,108             | 293,035                        | 156,714                            | 0                       | (20,359)  |
| Extracurricular Activities                                  | 539,382             | 216,897                        | 66,229                             | 0                       | (256,256)                                       |
| Interest and Fiscal Charges                                 | 344,051             | 0                              | 0                                  | 0                       | (344,051)                                       |
| <i>Total Governmental Activities</i>                        | <u>\$12,602,044</u> | <u>\$531,120</u>               | <u>\$748,456</u>                   | <u>\$16,231</u>         | <u>(11,306,237)</u>                             |
| <b><u>General Revenues:</u></b>                             |                     |                                |                                    |                         |   |
| <i>Property Taxes Levied for:</i>                           |                     |                                |                                    |                         |   |
| General Purposes  |                     |                                |                                    |                         | 2,822,745                                       |
| Debt Service  |                     |                                |                                    |                         | 675,758   |
| Capital Outlay  |                     |                                |                                    |                         | 50,185  |
| Income Taxes  |                     |                                |                                    |                         | 1,934,120                                       |
| Grants and Entitlements not Restricted to Specific Programs |                     |                                |                                    |                         | 5,816,121                                       |
| Unrestricted Tuition and Fees                               |                     |                                |                                    |                         | 390,165   |
| Investment Earnings   |                     |                                |                                    |                         | 185,721   |
| Miscellaneous   |                     |                                |                                    |                         | 97,938  |
| <i>Total General Revenues</i>                               |                     |                                |                                    |                         | <u>11,972,753</u>                               |
| Change in Net Assets  |                     |                                |                                    |                         | 666,516   |
| <i>Net Assets at Beginning of Year</i>                      |                     |                                |                                    |                         | <u>5,589,746</u>                                |
| <i>Net Assets at End of Year</i>                            |                     |                                |                                    |                         | <u><u>\$6,256,262</u></u>                       |

See accompanying notes to the basic financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Balance Sheet  
Governmental Funds  
June 30, 2006*

|   | <u>General</u>     | <u>Building</u>    | <u>Bond<br/>Retirement</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|--------------------|--------------------|----------------------------|---|---|
| <b><u>Assets:</u></b>                         |                    |                    |                            |   |   |
| Equity in Pooled Cash and Cash Equivalents    | \$1,142,958        | \$2,084,399        | \$651,156                  | \$457,996                               | \$4,336,509                             |
| Property Taxes Receivable                     | 2,913,840          | 0                  | 784,495                    | 54,968                                  | 3,753,303                               |
| Income Taxes Receivable                       | 668,378            | 0                  | 0                          | 0                                       | 668,378                                 |
| Accounts Receivable                           | 4,504              | 0                  | 0                          | 575                                     | 5,079                                   |
| Inventory Held for Resale                     | 0                  | 0                  | 0                          | 4,610                                   | 4,610                                   |
| <i>Total Assets</i>                           | <u>\$4,729,680</u> | <u>\$2,084,399</u> | <u>\$1,435,651</u>         | <u>\$518,149</u>                        | <u>\$8,767,879</u>                      |
| <b><u>Liabilities and Fund Balances:</u></b>  |                    |                    |                            |   |   |
| <b><u>Liabilities:</u></b>                    |                    |                    |                            |   |   |
| Accounts Payable                              | \$26,848           | \$0                | \$0                        | \$9,825                                 | \$36,673                                |
| Accrued Wages and Benefits                    | 836,358            | 0                  | 0                          | 58,450                                  | 894,808                                 |
| Intergovernmental Payable                     | 249,394            | 0                  | 0                          | 17,386                                  | 266,780                                 |
| Deferred Revenue                              | 2,603,066          | 0                  | 694,801                    | 48,802                                  | 3,346,669                               |
| Matured Compensated Absences Payable          | 31,154             | 0                  | 0                          | 0                                       | 31,154                                  |
| <i>Total Liabilities</i>                      | <u>3,746,820</u>   | <u>0</u>           | <u>694,801</u>             | <u>134,463</u>                          | <u>4,576,084</u>                        |
| <b><u>Fund Balances:</u></b>                  |                    |                    |                            |   |   |
| Reserved for Encumbrances                     | 16,404             | 375                | 0                          | 3,996                                   | 20,775                                  |
| Reserved for Property Taxes                   | 295,720            | 0                  | 85,642                     | 5,882                                   | 387,244                                 |
| <i>Unreserved, Undesignated, Reported in:</i> |                    |                    |                            |   |   |
| General Fund                                  | 670,736            | 0                  | 0                          | 0                                       | 670,736                                 |
| Special Revenue Funds                         | 0                  | 0                  | 0                          | 305,550                                 | 305,550                                 |
| Debt Service Fund                             | 0                  | 0                  | 655,208                    | 0                                       | 655,208                                 |
| Capital Projects Funds                        | 0                  | 2,084,024          | 0                          | 68,258                                  | 2,152,282                               |
| <i>Total Fund Balances</i>                    | <u>982,860</u>     | <u>2,084,399</u>   | <u>740,850</u>             | <u>383,686</u>                          | <u>4,191,795</u>                        |
| <i>Total Liabilities and Fund Balances</i>    | <u>\$4,729,680</u> | <u>\$2,084,399</u> | <u>\$1,435,651</u>         | <u>\$518,149</u>                        | <u>\$8,767,879</u>                      |

See accompanying notes to the basic financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Reconciliation of Total Governmental Fund Balances to*

*Net Assets of Governmental Activities*

*June 30, 2006*

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|   |                  |                           |
|---|------------------|---------------------------|
| <b>Total Governmental Funds Balances</b>  |                  | \$4,191,795               |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>   |                  |                           |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.   |                  | 9,653,848                 |
| Some of the District's receivables will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. These receivables consist of:                                 |                  |                           |
| Property taxes  |                  | 198,023                   |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:   |                  |                           |
| General obligation bonds  | (7,765,000)      |                           |
| Accrued interest on bonds   | (28,189)         |                           |
| Compensated absences  | <u>(925,082)</u> |                           |
| Total liabilities not reported in funds   |                  | (8,718,271)               |
| Internal service funds are used by management to charge the costs of insurance to individual funds and accounts for rotary services. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. |                  | <u>930,867</u>            |
| <i>Net Assets of Governmental Activities</i>  |                  | <u><u>\$6,256,262</u></u> |

See accompanying notes to the basic financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

|  | General           | Building           | Bond<br>Retirement | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|--------------------|--------------------|--------------------------------|--------------------------------|
| <b><u>Revenues:</u></b>                        |                   |                    |                    |                                |                                |
| Property Taxes                                 | \$2,789,129       | \$0                | \$738,832          | \$52,266                       | \$3,580,227                    |
| Income Taxes                                   | 1,934,120         | 0                  | 0                  | 0                              | 1,934,120                      |
| Intergovernmental                              | 5,787,879         | 0                  | 90,580             | 695,637                        | 6,574,096                      |
| Interest                                       | 96,189            | 87,637             | 0                  | 1,895                          | 185,721                        |
| Tuition and Fees                               | 390,165           | 0                  | 0                  | 6,240                          | 396,405                        |
| Extracurricular Activities                     | 0                 | 0                  | 0                  | 228,648                        | 228,648                        |
| Rent   | 1,085             | 0                  | 0                  | 0                              | 1,085                          |
| Gifts and Donations                            | 1,450             | 0                  | 0                  | 74,122                         | 75,572                         |
| Charges for Services                           | 3,197             | 0                  | 0                  | 293,035                        | 296,232                        |
| Miscellaneous                                  | 59,448            | 0                  | 0                  | 37,405                         | 96,853                         |
| <b>Total Revenues</b>                          | <b>11,062,662</b> | <b>87,637</b>      | <b>829,412</b>     | <b>1,389,248</b>               | <b>13,368,959</b>              |
| <b><u>Expenditures:</u></b>                    |                   |                    |                    |                                |                                |
| <i>Current:</i>                                |                   |                    |                    |                                |                                |
| <i>Instruction:</i>                            |                   |                    |                    |                                |                                |
| Regular  | 4,932,536         | 0                  | 0                  | 91,613                         | 5,024,149                      |
| Special  | 706,545           | 0                  | 0                  | 444,292                        | 1,150,837                      |
| Vocational                                     | 420,388           | 0                  | 0                  | 0                              | 420,388                        |
| Adult/Continuing                               | 27,017            | 0                  | 0                  | 0                              | 27,017                         |
| <i>Support Services:</i>                       |                   |                    |                    |                                |                                |
| Pupils   | 488,259           | 0                  | 0                  | 11,514                         | 499,773                        |
| Instructional Staff                            | 404,864           | 0                  | 0                  | 30,900                         | 435,764                        |
| Board of Education                             | 91,890            | 0                  | 0                  | 0                              | 91,890                         |
| Administration                                 | 873,939           | 0                  | 0                  | 59,378                         | 933,317                        |
| Fiscal   | 380,794           | 0                  | 14,028             | 984                            | 395,806                        |
| Operation and Maintenance of Plant             | 1,151,680         | 0                  | 0                  | 22,878                         | 1,174,558                      |
| Pupil Transportation                           | 523,574           | 0                  | 0                  | 0                              | 523,574                        |
| <i>Operation of Non-Instructional Services</i> |                   |                    |                    |                                |                                |
| Food Service Operations                        | 335               | 0                  | 0                  | 419,201                        | 419,536                        |
| Extracurricular Activities                     | 204,139           | 0                  | 0                  | 294,848                        | 498,987                        |
| Capital Outlay                                 | 4,929             | 73,222             | 0                  | 11,989                         | 90,140                         |
| <i>Debt Service:</i>                           |                   |                    |                    |                                |                                |
| Principal Retirement                           | 0                 | 0                  | 395,000            | 0                              | 395,000                        |
| Interest and Fiscal Charges                    | 0                 | 0                  | 345,754            | 0                              | 345,754                        |
| Bond Issuance Costs                            |                   |                    |                    |                                | 0                              |
| Advance Refunding Escrow                       |                   |                    |                    |                                | 0                              |
| <b>Total Expenditures</b>                      | <b>10,210,889</b> | <b>73,222</b>      | <b>754,782</b>     | <b>1,387,597</b>               | <b>12,426,490</b>              |
| <b>Net Change in Fund Balances</b>             | <b>851,773</b>    | <b>14,415</b>      | <b>74,630</b>      | <b>1,651</b>                   | <b>942,469</b>                 |
| <b>Fund Balances at Beginning of Year</b>      | <b>131,087</b>    | <b>2,069,984</b>   | <b>666,220</b>     | <b>382,035</b>                 | <b>3,249,326</b>               |
| <b>Fund Balances at End of Year</b>            | <b>\$982,860</b>  | <b>\$2,084,399</b> | <b>\$740,850</b>   | <b>\$383,686</b>               | <b>\$4,191,795</b>             |

See accompanying notes to the basic financial statements.



**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**  
*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, 2006*

|  |                  |
|--|------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>  | <b>\$942,469</b> |
| <br><i>Amounts reported for governmental activities in the statement of activities are different because:</i>  |                  |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.  | (658,243)        |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of:  |                  |
| Property taxes   | (31,539)         |
| Intergovernmental  | (68,860)         |
| Total revenues not reported in the funds   | (100,399)        |
| Repayment of bond principal and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.  | 395,000          |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.   | 1,703            |
| Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:  |                  |
| Compensated absences   | (23,644)         |
| The internal service funds used by management to charge the cost of insurance to individual funds and account for rotary services are not reported in the government-wide statement of activities. Governmental expenditures and the related internal service funds revenue are eliminated. The net revenue (expense) of the internal service funds is allocated among activities. | 109,630          |
| <i>Change in Net Assets of Governmental Activities</i>   | <b>\$666,516</b> |

See accompanying notes to the basic financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget and Actual (Budget Basis)*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2006*

|   | Budgeted Amounts  |                    |                    | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|--------------------|--------------------|---|
|   | Original          | Final              | Actual             |   |
| <b><u>Revenues:</u></b>                             |                   |                    |                    |   |
| Property Taxes                                      | \$2,798,547       | \$2,840,944        | \$2,840,944        | \$0   |
| Income Taxes  | 1,717,791         | 1,856,048          | 1,856,048          | 0   |
| Intergovernmental                                   | 5,600,713         | 5,787,879          | 5,787,879          | 0   |
| Interest  | 60,000            | 93,733             | 96,189             | 2,456   |
| Tuition and Fees                                    | 349,326           | 379,839            | 389,205            | 9,366   |
| Rent  | 2,500             | 1,085              | 1,085              | 0   |
| Gifts and Donations                                 | 0                 | 1,450              | 1,450              | 0   |
| Charges for Services                                | 0                 | 3,197              | 3,197              | 0   |
| Miscellaneous                                       | 25,100            | 33,857             | 34,591             | 734   |
| <i>Total Revenues</i>                               | <u>10,553,977</u> | <u>10,998,032</u>  | <u>11,010,588</u>  | <u>12,556</u>   |
| <b><u>Expenditures:</u></b>                         |                   |                    |                    |   |
| <i>Current:</i>                                     |                   |                    |                    |   |
| <i>Instruction:</i>                                 |                   |                    |                    |   |
| Regular   | 4,892,176         | 4,925,379          | 4,925,379          | 0   |
| Special   | 750,187           | 757,157            | 757,157            | 0   |
| Vocational  | 437,220           | 428,738            | 428,738            | 0   |
| Adult/Continuing                                    | 17,321            | 22,346             | 22,346             | 0   |
| <i>Support Services:</i>                            |                   |                    |                    |   |
| Pupils  | 489,635           | 491,659            | 491,659            | 0   |
| Instructional Staff                                 | 439,499           | 406,882            | 406,882            | 0   |
| Board of Education                                  | 99,170            | 95,685             | 95,685             | 0   |
| Administration                                      | 896,471           | 885,905            | 885,905            | 0   |
| Fiscal  | 387,246           | 388,347            | 388,347            | 0   |
| Operation and Maintenance of Plant                  | 1,193,000         | 1,185,860          | 1,185,860          | 0   |
| Pupil Transportation                                | 504,286           | 531,076            | 531,076            | 0   |
| Operation of Non-Instructional Services             | 257               | 334                | 334                | 0   |
| <i>Extracurricular Activities</i>                   |                   |                    |                    |   |
| Academic Oriented Activities                        | 16,148            | 17,908             | 17,908             | 0   |
| Sport Oriented Activities                           | 189,841           | 169,488            | 169,488            | 0   |
| School and Public Service Co-Curricular Activities  | 10,012            | 11,186             | 11,186             | 0   |
| <i>Capital Outlay</i>                               |                   |                    |                    |   |
| Building Improvement Services                       | 925               | 4,929              | 4,929              | 0   |
| <i>Total Expenditures</i>                           | <u>10,323,394</u> | <u>10,322,879</u>  | <u>10,322,879</u>  | <u>0</u>  |
| <i>Excess of Revenues Over (Under) Expenditures</i> | 230,583           | 675,153            | 687,709            | 12,556  |
| <b><u>Other Financing Sources:</u></b>              |                   |                    |                    |   |
| Refund of Prior Year Expenditures                   | 59,000            | 65,845             | 68,540             | 2,695   |
| Refund of Prior Year Receipts                       | (110,000)         | (125,161)          | (125,161)          | 0   |
| <i>Total Other Financing Sources</i>                | <u>(51,000)</u>   | <u>(59,316)</u>    | <u>(56,621)</u>    | <u>2,695</u>  |
| Change in Fund Balances                             | 179,583           | 615,837            | 631,088            | 15,251  |
| <i>Fund Balance at Beginning of Year</i>            | 453,949           | 453,949            | 453,949            | 0   |
| Prior Year Encumbrances Appropriated                | 27,245            | 27,245             | 27,245             | 0   |
| <i>Fund Balance at End of Year</i>                  | <u>\$660,777</u>  | <u>\$1,097,031</u> | <u>\$1,112,282</u> | <u>\$15,251</u>   |

See accompanying notes to the basic financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Statement of Net Assets*

*Proprietary Funds*

*June 30, 2006*

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|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
|  | <u>Internal<br/>Service Funds</u>  |
| <b><u>Assets:</u></b>                      |                                    |
| <i>Current Assets:</i>                     |                                    |
| Equity in Pooled Cash and Cash Equivalents | <u>\$971,992</u>                   |
| <b><u>Liabilities:</u></b>                 |                                    |
| <i>Current Liabilities:</i>                |                                    |
| Claims Payable                             | <u>41,125</u>                      |
| <b><u>Net Assets:</u></b>                  |                                    |
| Unrestricted                               | <u><u>\$930,867</u></u>            |

See accompanying notes to the basic financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2006*

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|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
|  | <u>Internal<br/>Service Funds</u>  |
| <b><u>Operating Revenues:</u></b>      |                                    |
| Charges for Services                   | \$1,047,550                        |
| Other Revenues                         | <u>13,699</u>                      |
| <i>Total Operating Revenues</i>        | <u>1,061,249</u>                   |
| <b><u>Operating Expenses:</u></b>      |                                    |
| Purchased Services                     | 180,885                            |
| Materials and Supplies                 | 4,993                              |
| Claims                                 | <u>765,741</u>                     |
| <i>Total Operating Expenses</i>        | <u>951,619</u>                     |
| <i>Change in Net Assets</i>            | 109,630                            |
| <i>Net Assets at Beginning of Year</i> | <u>821,237</u>                     |
| <i>Net Assets at End of Year</i>       | <u><u>\$930,867</u></u>            |

See accompanying notes to the basic financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Statement of Cash Flows*

*Proprietary Funds*

*For the Fiscal Year Ended June 30, 2006*

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|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
|  | <u>Internal<br/>Service Funds</u>  |
| <b><u>Increase (Decrease) in Cash and Cash Equivalents:</u></b>                                    |                                    |
| <b><u>Cash Flows from Operating Activities:</u></b>  |                                    |
| Cash Received from Interfund Services Provided   | \$1,047,550                        |
| Other Cash Receipts  | 13,699                             |
| Cash Payments for Goods and Services   | (185,878)                          |
| Cash Payments for Claims   | <u>(750,010)</u>                   |
| <i>Net Cash from Operating Activities</i>  | <u>125,361</u>                     |
| <i>Net Increase in Cash and Cash Equivalents</i>   | 125,361                            |
| <i>Cash and Cash Equivalents at Beginning of Year</i>  | <u>846,631</u>                     |
| <i>Cash and Cash Equivalents at End of Year</i>  | <u><u>\$971,992</u></u>            |
| <br>   |                                    |
| <b><u>Reconciliation of Operating Income<br/>to Net Cash from Operating Activities:</u></b>        |                                    |
| Operating Income (Loss)  | \$109,630                          |
| <br>   |                                    |
| <b><u>Adjustments to Reconcile Operating Income<br/>to Net Cash from Operating Activities:</u></b> |                                    |
| <i>Increase in Liabilities:</i>  |                                    |
| Claims Payable   | <u>15,731</u>                      |
| <i>Net Cash from Operating Activities</i>  | <u><u>\$125,361</u></u>            |

See accompanying notes to the basic financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2006*

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|  | <u>Agency</u>           |
|--|-------------------------|
| <b><u>Assets:</u></b>                      |                         |
| Equity in Pooled Cash and Cash Equivalents | <u>\$779,248</u>        |
| <b><u>Liabilities:</u></b>                 |                         |
| Undistributed Monies                       | 742,444                 |
| Due to Students                            | <u>36,804</u>           |
| <i>Total Liabilities</i>                   | <u><u>\$779,248</u></u> |

See accompanying notes to the basic financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

**Description of the School District**

Liberty Union-Thurston Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established through the consolidation of existing land areas and school districts. It is staffed by 53 non-certificated employees, 88 certificated full-time teaching personnel and 7 administrative employees who provide services to 1,434 students and other community members.

**Reporting Entity**

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

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

The District is associated with four jointly governed organizations: the Metropolitan Educational Council, the South Central Ohio Insurance Consortium, the Fairfield County Council for Educational Collaboration and the Central Ohio Special Education Regional Resource Center. The District is also associated with one insurance purchasing pool: Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 17 and 18 to the basic financial statements.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the 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 statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function 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 business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements**

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

**B. Fund Accounting**

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



**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**Governmental Funds**

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

The following are the District's three major governmental funds:

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

**Building Fund**- This fund is used to account for the revenues and expenditures related to the special bonds issued for the renovation of the elementary school.

**Bond Retirement Fund**- This fund is used to account for financial resources accumulated for the payment of general long-term debt principal, interest and related costs.

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

**Proprietary Fund**

The proprietary fund focus is on the determination of the change in net assets, financial position and cash flows and is classified as internal service. The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The internal service funds of the District accounts for rotary services and a self-insurance program which provides health and dental benefits to employees.

**Fiduciary Funds**

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

**C. Measurement Focus**

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**Fund Financial Statements**

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

Like the government-wide statements, proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and 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.

**D. Basis of Accounting**

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

**Revenues - Exchange and Nonexchange Transactions**

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the 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. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at the fiscal year-end: property taxes available for advance, income taxes, grants and interest.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**Deferred Revenue**

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

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

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

**Expenses/Expenditures**

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

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

**E. Cash and Cash Equivalents**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During the fiscal year 2006, the District's investments were limited to certificates of deposit, federal agency securities, repurchase agreements and the State Treasury Asset Reserve of Ohio (STAROhio). Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. Non-participating investment contracts such as certificates of deposit and repurchase agreements are reported at cost. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2006 amounted to \$96,189, which includes \$80,232 assigned from other District funds.

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

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**F. 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. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption and donated food, purchased food and school supplies held for resale. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed, used or sold.

**G. Capital Assets**

General capital assets are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

| <u>Description</u>                | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Land Improvements                 | 50 years               |
| Buildings and Improvements        | 20 - 50 years          |
| Furniture, Fixtures and Equipment | 5 - 20 years           |
| Vehicles                          | 5-20 years             |

**H. Compensated Absences**

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

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who are eligible to receive termination benefits based on School Employees Retirement System and State Teachers Retirement System retirement criteria.

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees will be paid.

**I. Accrued Liabilities and Long-Term Liabilities**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Long-term bonds and capital leases are recognized as a liability on the fund financial statements when due.

**J. 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.

**K. Fund Balance Reserves**

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

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

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

**L. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

**M. 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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

**N. Budgetary Process**

All funds, other than the agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Any revisions that alter the total of any fund appropriations must be approved by the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the final amended certificate issued during fiscal year 2006.

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

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**NOTE 3 - CORRECTION OF ERRORS AND NEW GASB PRONOUNCEMENT**

**Correction of Errors**

In the financial statements for the year ended June 30, 2005, errors were made in the accounting for audit adjustments made in a previous year to the cash and cash equivalents in the Building Capital Projects Fund and South Central Ohio Insurance Consortium Agency Fund. Cash balance held by OMERSA for the District were omitted in fiscal year 2005 from the Self-Insurance Internal Service Fund. These errors have been corrected and have had the following effect on the beginning cash and cash equivalents balance:

|  | Building<br>Fund   | Internal<br>Service Fund | Governmental<br>Activities |
|--|--------------------|--------------------------|----------------------------|
| Fund Balance/Net Assets at June 30, 2005           | \$2,031,494        | \$783,640                | \$5,513,659                |
| Adjustment to Cash and Cash Equivalent             | 38,490             | 37,597                   | 76,087                     |
| Adjusted Fund Balance/Net Assets at June 30, 2005  | <u>\$2,069,984</u> | <u>\$821,237</u>         | <u>\$5,589,746</u>         |
|  |                    | Agency<br>Fund           |                            |
| Cash and Cash Equivalent at June 30, 2005          |                    | \$6,211,143              |                            |
| Adjustment of Cash and Cash Equivalent             |                    | (341,339)                |                            |
| Adjusted Cash and Cash Equivalent at June 30, 2005 |                    | <u>\$5,869,804</u>       |                            |

**New GASB Pronouncement**

For fiscal year 2006, the District implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No.47, "Accounting for Termination Benefits." The implementation of GASB Statement No. 46 and 47 has some effect on the disclosure requirements, however, there was no effect on the prior period fund balances of the District.

**NOTE 4 - ACCOUNTABILITY**

The following funds had a deficit fund balance as of June 30, 2006:

|  | <u>Deficit Fund Balance</u> |
|--|-----------------------------|
| <i>Nonmajor Special Revenue Funds:</i> | \$3                         |
| Ohio Read                              |                             |
| Miscellaneous State Grants             | 1,264                       |
| Title I                                | 2,531                       |
| Improving Teacher Quality              | 9,358                       |
| Miscellaneous Federal Grants           | 73                          |

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**NOTE 4 - ACCOUNTABILITY** - (Continued)

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described earlier is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balance - budget and actual (budget basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and modified accrual GAAP basis are that:

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

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

| <u>Net Change in Fund Balance</u> |                         |
|-----------------------------------|-------------------------|
| Budget Basis                      | \$631,088               |
| <i>Adjustments:</i>               |                         |
| Revenue Accruals                  | 52,074                  |
| Expenditure Accruals              | 86,302                  |
| Encumbrances                      | 25,688                  |
| Other Financing Sources (Uses)    | 56,621                  |
| GAAP Basis                        | <u><u>\$851,773</u></u> |

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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



**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 6 - DEPOSITS AND INVESTMENTS** - (Continued)

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

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

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public funds on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the District's name. During fiscal year 2006, the District complied with the provisions of these statutes.

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

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

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**NOTE 6 - DEPOSITS AND INVESTMENTS** - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**Deposits:** Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At June 30, 2006, the carrying amount of all District deposits was \$808,726. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2006, \$792,897 of the District's bank balance of \$1,081,355 was exposed to custodial risk as discussed above while \$288,458 was covered by Federal Deposit Insurance. The \$792,897 exposed to custodial risk was collateralized with securities held by the District or its agent in the District's name.

**Investments:** As of June 30, 2006, the district had the following investments and maturities:

| Investment Type           | Fair Value         | 6 Months or Less   | 7 to 12 Months   | 13 to 18 Months  |
|---------------------------|--------------------|--------------------|------------------|------------------|
| Federal Agency Securities | \$1,992,590        | \$698,908          | \$297,297        | \$996,385        |
| Repurchase Agreements     | 1,854,425          | 1,854,425          | 0                | 0                |
| STAROhio                  | 1,062,211          | 1,062,211          | 0                | 0                |
| Money Market Funds        | 369,797            | 369,797            | 0                | 0                |
| Totals                    | <u>\$5,279,023</u> | <u>\$3,985,341</u> | <u>\$297,297</u> | <u>\$996,385</u> |

**Repurchase Agreements:** State statutes permit the District to enter into repurchase agreements. All sales of investments under repurchase agreements are for fixed terms. In investing the proceeds of repurchase agreements, District policy is for the term to maturity of the investment to be the same as the term of the repurchase agreement. Such matching existed at year-end.

**Interest Rate Risk:** As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 6 - DEPOSITS AND INVESTMENTS** - (Continued)

Credit Risk: The District's investments in the Federal Agency Securities was rated AAA by Standard and Poor's and Fitch Ratings, and Aaa by Moody's Investors Service. Standard and Poor's has assigned STAROhio an "AAAm" money market rating. The District's money market funds were not rated.

Custodial Credit Risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities in the possession of an outside party. District policy provides that investment collateral is held by the counter party's trust department or agent, and may be held in the name of the District or not.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. Federal Agency Securities comprised 41.84% of the District's investments, Repurchase Agreements comprised 36.98% of the District's investments and STAROhio comprised 21.18% of the District's investments.

**NOTE 7 - SCHOOL INCOME TAX**

The District currently benefits from a 1.75% income tax which is assessed on all residents of the District. In the year ended June 30, 2006, the income tax generated \$1,934,120 in revenue. The District apportions all the proceeds to the General Fund.

**NOTE 8 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31, of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31. Tangible personal property assessments are 25 percent of true value.

Real property taxes are paid by taxpayers annually or semi-annually. If paid annually, payment is due December 31, unless extended; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20, unless extended. Under certain circumstances, State statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Fairfield County. The Fairfield County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006 are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**NOTE 8 - PROPERTY TAXES** - (Continued)

Accrued property taxes receivable represents the June 2006 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The total amount available as an advance at June 30, 2006 was \$387,244 and is recognized as revenue. Of this total amount, \$295,720 was available to the General Fund \$5,882 was available to the Classroom Facilities Maintenance Nonmajor Special Revenue Fund and \$85,642 was available for the Bond Retirement Debt Service Fund.

The assessed values upon which the fiscal year 2006 taxes were collected are:

|   | 2005 Second-<br>Half Collections |                | 2006 First-<br>Half Collections |                |
|---|----------------------------------|----------------|---------------------------------|----------------|
|   | Amount                           | Percent        | Amount                          | Percent        |
| Agricultural/Residential<br>and Other Real Estate | \$131,075,010                    | 91.32%         | \$134,169,750                   | 92.11%         |
| Public Utility Personal                           | 6,545,570                        | 4.12%          | 6,590,330                       | 4.52%          |
| Tangible Personal Property                        | 5,905,636                        | 4.56%          | 4,899,788                       | 3.37%          |
| Total Assessed Value                              | <u>\$143,526,216</u>             | <u>100.00%</u> | <u>\$145,659,868</u>            | <u>100.00%</u> |
| Tax rate per \$1,000 of<br>assessed valuation     | \$45.90                          |                | \$45.90                         |                |

**NOTE 9 - RECEIVABLES**

Receivables at June 30, 2006 consisted of property taxes, income taxes and accounts (student fees). All receivables are considered collectible in full.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**NOTE 10 - CAPITAL ASSETS**

Capital asset governmental activity for the fiscal year ended June 30, 2006 was as follows:

| <u>Asset Category</u>                 | <u>Balance at<br/>July 1, 2005</u> | <u>Transfers/<br/>Additions</u> | <u>Transfers/<br/>Deletions</u> | <u>Balance at<br/>June 30, 2006</u> |
|---------------------------------------|------------------------------------|---------------------------------|---------------------------------|-------------------------------------|
| <i>Nondepreciable Capital Assets:</i> |                                    |                                 |                                 |                                     |
| Land                                  | \$595,953                          | \$0                             | \$0                             | \$595,953                           |
| <i>Depreciable Capital Assets:</i>    |                                    |                                 |                                 |                                     |
| Land Improvements                     | 1,027,048                          | 0                               | 0                               | 1,027,048                           |
| Buildings and Improvements            | 17,041,118                         | 0                               | 0                               | 17,041,118                          |
| Furniture, Fixtures and Equipment     | 611,291                            | 22,928                          | 0                               | 634,219                             |
| Vehicles                              | 964,968                            | 0                               | 0                               | 964,968                             |
| Library and Textbooks                 | 770,652                            | 0                               | 0                               | 770,652                             |
| Total Depreciable Capital Assets      | <u>20,415,077</u>                  | <u>22,928</u>                   | <u>0</u>                        | <u>20,438,005</u>                   |
| Total Capital Assets                  | <u>21,011,030</u>                  | <u>22,928</u>                   | <u>0</u>                        | <u>21,033,958</u>                   |
| <i>Accumulated Depreciation:</i>      |                                    |                                 |                                 |                                     |
| Land Improvements                     | (546,189)                          | (40,564)                        | 0                               | (586,753)                           |
| Buildings and Improvements            | (8,438,148)                        | (431,919)                       | 0                               | (8,870,067)                         |
| Furniture, Fixtures and Equipment     | (419,474)                          | (34,819)                        | 0                               | (454,293)                           |
| Vehicles                              | (781,860)                          | (45,427)                        | 0                               | (827,287)                           |
| Library and Textbooks                 | (513,268)                          | (128,442)                       | 0                               | (641,710)                           |
| Total Accumulated Depreciation        | <u>(10,698,939)</u>                | <u>(681,171)</u>                | <u>0</u>                        | <u>(11,380,110)</u>                 |
| Total Net Capital Assets              | <u>\$10,312,091</u>                | <u>(\$658,243)</u>              | <u>\$0</u>                      | <u>\$9,653,848</u>                  |

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 10 - CAPITAL ASSETS** - (Continued)

Depreciation expense was charged to governmental functions as follow:

|   |                         |
|---|-------------------------|
| <i>Instruction:</i>                     |                         |
| Regular                                 | \$415,407               |
| Special                                 | 28,817                  |
| Vocational                              | 11,836                  |
| <i>Support Services:</i>                |                         |
| Pupils                                  | 13,825                  |
| Instructional Staff                     | 104,393                 |
| Administration                          | 4,609                   |
| Operation and Maintenance of Plant      | 3,088                   |
| Pupil Transportation                    | 45,427                  |
| Operation of Non-Instructional Services | 17,227                  |
| Extracurricular Activities              | 36,542                  |
|   | <hr/>                   |
| Total Depreciation Expense              | <u><u>\$681,171</u></u> |

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 11 - 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; injuries to employees and natural disasters. During fiscal year 2006, the District contracted with various commercial carriers for property and fleet insurance, liability insurance, and public officials bonds. Coverages provided are as follows:

|   |              |
|---|--------------|
| Building/Contents (\$1,000 deductible)  | \$24,678,900 |
| Inland Marine (\$1,000 deductible)      | 24,283,900   |
| Automobile Liability (\$250 deductible) |              |
| Per Person                              | 5,000        |
| Per Accident                            | 1,000,000    |
| General Liability:                      |              |
| Per Occurrence                          | 1,000,000    |
| Aggregate Limit                         | 3,000,000    |
| Public Officials Bonds:                 |              |
| Treasurer                               | 25,000       |
| Superintendent/Board President (each)   | 20,000       |

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year, except the addition of inland marine coverage.

For fiscal year 2006, the District participated in the Ohio School Boards Association Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The District has established an internal service "self-insurance" fund, in conjunction with a formalized risk management program, in an effort to minimize risk exposure and control claims and premium costs. This self-insurance fund was established July, 1992 for the purpose of accumulating balances sufficient to self-insure basic medical, dental, vision, and prescription drug coverage and permit excess umbrella coverage for claims over a pre-determined level. Amounts are paid into this fund from the General Fund, Food Service Nonmajor Special Revenue Fund, and certain Nonmajor Special Revenue Funds (Grants). Claims payments are made on an as-incurred basis, thus no "reserve" remains with the insurance carrier. Effective July 1, 1996, the District terminated the independent carrier for self-insurance for basic medical, and prescription drug coverage and joined the South Central Ohio Insurance Consortium. The District continues to maintain an independent self-insurance fund for dental coverage.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**NOTE 11 - RISK MANAGEMENT** - (Continued)

The claims liability of \$41,125 reported at June 30, 2006 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

| <u>Fiscal Year</u> | <u>Balance at<br/>Beginning of Year</u> | <u>Current Year<br/>Claims</u> | <u>Claims Payments</u> | <u>Balance at<br/>End of Year</u> |
|--------------------|---|--------------------------------|------------------------|-----------------------------------|
| 2005               | \$49,655                                | \$949,806                      | \$974,067              | \$25,394                          |
| 2006               | 25,394                                  | 1,057,045                      | 1,041,314              | 41,125                            |

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2006, 10.58 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$153,232, \$133,397, and \$139,824, respectively; 50.01 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$76,593 representing the unpaid contribution for fiscal year 2006, is recorded as a liability in the appropriate funds.

**State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.



**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 12 - DEFINED BENEFIT PENSION PLANS** - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$686,801, \$672,150, and \$661,341, respectively; 82.38 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$121,013 representing the unpaid contribution for fiscal year 2006, is recorded as a liability in the appropriate funds.

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, no members of the Board of Education have elected Social Security.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 13 - POSTEMPLOYMENT BENEFITS** - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$52,831 during fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivorship benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Net health care costs for the year ended June 30, 2006 were \$158,751,207. The target level for health care reserve is 150 percent of projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claims costs. The number of participants eligible to receive benefits was 59,492. For the District, the amount to fund health care benefits, including the surcharge, equaled \$71,381 during fiscal year 2006.

**NOTE 14 - EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per year, depending upon length of service. Administrators and support personnel who are under a full year contract (11 or 12 months) are also eligible for vacation time. These employees earn twelve to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to employees upon termination of employment.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for aides and all other classified employees and 250 for certified employees.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 14 - EMPLOYEE BENEFITS** - (Continued)

Retirement severance is paid to each employee retiring from the District at a per diem rate of the annual salary at the time of retirement. Any teacher or administrator receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-third of all accumulated sick leave credited to that employee up to 65 days. Classified employees receive retirement severance pay equivalent to forty percent of all accumulated sick leave credited to that employee up to 100 days. Classified employees receive a bonus of 20 days severance pay upon reaching 25 years of service. In addition, bargaining unit members will be eligible to receive an additional twenty (20) days of severance when the employee reaches 25 years of service with the District, and an additional twenty (20) days of severance when the employee reaches 30 years of experience.

**Health and Prescription Drug Insurance**

In July, 1996, the District joined the South Central Ohio Insurance Consortium (SCOIC) to self insure its medical claims. SCOIC currently includes eight member school districts and governmental entities. The District serves as the fiscal agent for the consortium and records the activity of the consortium in an agency fund. Contributions are determined by the consortium's board of directors and are remitted monthly to the District as the consortium's fiscal agent and incurred claims are paid. Thus actual cash "reserves" are held by the District as fiscal agent.

Claim liabilities for the consortium at June 30, 2006, were \$2,105,000, and are reported by the individual member entities. Members include the following school districts and governmental entities:

Berne Union Local School District  
Bloom-Carroll Local School District  
Canal Winchester Local School District  
Fairfield Union Local School District  
Fairfield County Board of Mental Retardation  
Lancaster City  
Liberty Union-Thurston Local School District  
Miami Trace Local School District

EV Benefits, a third party administrator, services all health/medical claims submitted by employees. An excess coverage insurance policy covers individual claims for the District in excess of \$100,000 and \$3,000,000 lifetime maximum, per employee consortium wide.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**NOTE 15 - LONG-TERM LIABILITIES**

The changes in the District's long-term liabilities during fiscal year 2006 were as follows:

|  | <u>Issue<br/>Date</u> | <u>Interest<br/>Rate</u> | <u>Principal<br/>Outstanding at<br/>July 1, 2005</u> | <u>Additions</u> | <u>Deductions</u> | <u>Principal<br/>Outstanding at<br/>June 30, 2006</u> | <u>Amount<br/>Due In<br/>One Year</u> |
|--|-----------------------|--------------------------|--|------------------|-------------------|---|---------------------------------------|
| <i><u>Governmental Activities:</u></i>                 |                       |                          |  |                  |                   |   |                                       |
| Remodeling Bonds                                       | 1986                  | 7.50%                    | \$675,000  | \$0              | \$135,000         | \$540,000   | \$135,000                             |
| Renovation Bonds                                       | 2002                  | 4.35%                    | 7,485,000  | 0                | 260,000           | 7,225,000   | 260,000                               |
| Total General Obligation Debt                          |                       |                          | 8,160,000  | 0                | 395,000           | 7,765,000   | 395,000                               |
| Compensated Absences Payable                           |                       |                          | 901,438  | 227,035          | 203,391           | 925,082   | 210,470                               |
| Total Governmental Activities<br>Long-Term Obligations |                       |                          | <u>\$9,061,438</u>                                   | <u>\$227,035</u> | <u>\$598,391</u>  | <u>\$8,690,082</u>                                    | <u>\$605,470</u>                      |

In 1986, general obligation bonds were issued for the purpose of remodeling and equipping the high school and general district remodeling. The bonds were issued for \$3,105,000 at 7.5% interest and mature in December 2009. These bonds will be paid from the Bond Retirement Debt Service Fund using property tax revenues.

In December 2002, the District issued general obligation bonds in the amount of \$7,900,000 for the renovation of the elementary school. The bonds were issued at an average interest rate of 4.35% and mature in December 2020. These bonds will be paid from the Bond Retirement Debt Service Fund using property tax revenues.

Compensated absences will be paid from the fund from which the employee is paid.

The District's overall legal debt margin was \$5,344,388 with an unvoted debt margin of \$145,660 at June 30, 2006.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**NOTE 15 - LONG-TERM LIABILITIES** - (Continued)

The annual requirements to retire the general obligation remodeling and renovation bonds outstanding at June 30, 2006, are as follows:

| <u>Fiscal Year<br/>Ending June 30,</u> | <u>Remodeling<br/>Bonds</u> | <u>Renovation<br/>Bonds</u> | <u>Total</u>       |
|--|-----------------------------|-----------------------------|--------------------|
| 2007                                   | 170,438                     | 569,494                     | 739,932            |
| 2008                                   | 160,313                     | 582,459                     | 742,772            |
| 2009                                   | 290,250                     | 613,563                     | 903,813            |
| 2010                                   | 0                           | 627,687                     | 627,687            |
| 2011                                   | 0                           | 640,341                     | 640,341            |
| 2012-2016                              | 0                           | 3,536,767                   | 3,536,767          |
| 2017-2021                              | 0                           | 3,435,750                   | 3,435,750          |
| Total Debt Payments                    | 621,001                     | 10,006,061                  | 10,627,062         |
| Less: Amount<br>Representing Interest  | 81,001                      | 2,781,061                   | 2,862,062          |
| Total Principal                        | <u>\$540,000</u>            | <u>\$7,225,000</u>          | <u>\$7,765,000</u> |

**NOTE 16 - STATUTORY SET-ASIDES**

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

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

**NOTE 16 - STATUTORY SET-ASIDES** - (Continued)

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

|  | <u>Textbooks</u> | <u>Capital<br/>Acquisition</u> |
|--|------------------|--------------------------------|
| Set-Aside Reserve Balance as of June 30, 2005            | (\$498,714)      | \$0                            |
| Current Year Set-Aside Requirement                       | 212,117          | 212,117                        |
| Qualifying Disbursements                                 | (220,402)        | (398,017)                      |
| Totals   | (506,999)        | (\$185,900)                    |
| Set-Aside Balance Carried Forward to Future Fiscal Years | (506,999)        | \$0                            |
| Set-Aside Reserve Balance as of June 30, 2006            | \$0              | \$0                            |

The District had qualifying disbursements during the fiscal year that reduced the set-aside amounts below zero. The excess disbursements for the textbook set-aside may be used to reduce set-aside requirements in future years, however, the excess disbursements for the capital acquisition set-aside may not. The total reserve balance for the set-asides at the end of the fiscal year was zero.

**NOTE 17 - JOINTLY GOVERNED ORGANIZATION**

**Metropolitan Educational Council**

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

**South Central Ohio Insurance Consortium**

The South Central Ohio Insurance Consortium (SCOIC) is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The District serves as the fiscal agent for the SCOIC. The District does not have an ongoing financial interest in or ongoing financial responsibility for the SCOIC other than claims paid on behalf of the District for its employees.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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**NOTE 17 - JOINTLY GOVERNED ORGANIZATION** - (Continued)

**Fairfield County Council for Education Collaboration**

The Fairfield County Council of Educational Collaboration (FCCEC) is a not-for-profit Council of Governments owned and operated by certain Boards of Education and institutions of higher education within Fairfield County. The purpose of the FCCEC is to bring together the public school systems and the public institution for higher education in Fairfield County so they can collectively devise and provide for enhanced educational opportunities for the students and citizens of the community. The areas of interest that may be addressed by the FCCEC include, but are not limited to, student programming, school management issues, and any other collaborative projects deemed appropriate by the governing body of the FCCEC. The FCCEC is not dependent upon the continued participation of the District and the District does not maintain any equity interest in or financial responsibility for the FCCEC.

**Central Ohio Special Education Regional Resource Center**

The Central Ohio Special Education Regional Resource Center (COSERC) is a not-for-profit Council of Governments of various school districts in Central Ohio. The District participates in services that assist the District in complying with Mandates of Public Law 101-476 and Public Law 99-457 for educating children with disabilities. There is no financial commitment made by the District. COSERC is not dependent upon the continued participation of the District and the District does not maintain an equity interest in or financial responsibility for COSERC.

**NOTE 18 - INSURANCE PURCHASING POOL**

**Ohio School Boards Association Worker's Compensation Group Rating Program**

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

**NOTE 19 - CONTINGENCIES**

**Grants**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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***NOTE 20 - 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 plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

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





**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education  
Liberty Union-Thurston Local School District  
621 Washington Street  
Baltimore, OH 43015

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty Union-Thurston Local School District, Fairfield County, Ohio (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

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

However, we noted certain other matters that we reported to management of the District in a separate letter dated January 5, 2007.

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

*Kennedy, Cottrell + Associates LLC*

Kennedy, Cottrell + Associates LLC  
January 5, 2007



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

Board of Education  
Liberty Union-Thurston Local School District  
621 Washington Street  
Baltimore, OH 43015

**Compliance**

We have audited the compliance of the Liberty Union-Thurston Local School District, Fairfield County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

**Internal Control over Compliance**

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

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

Board of Education  
Liberty Union-Thurston Local School District  
Report on Compliance with Requirements Applicable to Each Major Federal Program and  
Internal Control Over Compliance in Accordance with OMB Circular A-133  
Page 2

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

*Kennedy, Cottrell + Associates LLC*

Kennedy, Cottrell + Associates  
January 5, 2007

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY, OHIO

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006

| Federal grantor/Pass through grantor/Program title  | Federal<br>CFDA<br>Number | Agency or<br>pass through<br>number | Receipts          | Non-Cash<br>Receipts | Expenditures      | Non-Cash<br>Expenditures |
|---|---------------------------|-------------------------------------|-------------------|----------------------|-------------------|--------------------------|
| <b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>  |                           |                                     |                   |                      |                   |                          |
| <i>Pass-through State Department of Education:</i>  |                           |                                     |                   |                      |                   |                          |
| Nutrition Cluster:  |                           |                                     |                   |                      |                   |                          |
| Food Distribution   | 10.550                    |                                     |                   | \$ -                 | \$ -              | \$ 46,502                |
| National School Lunch Program   | 10.555                    | 046888-LLP4                         | 107,309           | -                    | 108,640           | -                        |
| Total U.S. Department of Agriculture - Nutrition Cluster                                  |                           |                                     | <u>107,309</u>    | <u>-</u>             | <u>108,640</u>    | <u>46,502</u>            |
| <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>  |                           |                                     |                   |                      |                   |                          |
| <i>Pass-through Ohio Department of Education:</i>   |                           |                                     |                   |                      |                   |                          |
| Title I Grants to Local Education Agencies  | 84.010                    | 046888-C1S1                         | 108,811           | -                    | 119,474           | -                        |
| Special Education--Grants to States--Title VI-B   | 84.027                    | 046888-6BSF                         | 254,743           | -                    | 254,289           | -                        |
| Safe and Drug Free Schools -- State Grant   | 84.186                    | 046888-DRS1                         | 5,256             | -                    | 5,256             | -                        |
| Innovative Education Program Strategy, Title V  | 84.298                    | 046888-C2S1                         | 3,826             | -                    | 3,826             | -                        |
| Title II-D Technology Fund  | 84.318                    | 046888-TJS1                         | 1,830             | -                    | 1,830             | -                        |
| Title II-A -- Improving Teacher Quality   | 84.367                    | 046888-TRS1                         | 83,558            | -                    | 83,558            | -                        |
| Total U.S. Department of Education  |                           |                                     | <u>458,024</u>    | <u>-</u>             | <u>468,233</u>    | <u>-</u>                 |
| <b><u>U.S. DEPARTMENT OF JOB AND FAMILY SERVICES</u></b>                                  |                           |                                     |                   |                      |                   |                          |
| <i>Pass-through Ohio Department of Mental Retardation and Developmental Disabilities:</i> |                           |                                     |                   |                      |                   |                          |
| Medical Assistance Program  | 93.778                    |                                     | -                 |                      | 3,882             |                          |
| Total Department of Job and Family Services   |                           |                                     | <u>-</u>          | <u>-</u>             | <u>3,882</u>      | <u>-</u>                 |
| <b>Total Receipts and Expenditures of Federal Awards</b>                                  |                           |                                     | <u>\$ 565,333</u> | <u>\$ -</u>          | <u>\$ 580,755</u> | <u>\$ 46,502</u>         |

See accompanying notes to the Schedule of Receipts and Expenditures of Federal Awards

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY, OHIO**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B--FOOD DISTRIBUTION**

Nonmonetary 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.

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 § .505**

**JUNE 30, 2006**

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

|              |  |   |
|--------------|--|---|
| (d)(1)(i)    | Type of Financial Statement Opinion  | Unqualified   |
| (d)(1)(ii)   | Were there any material control weakness conditions reported at the financial statement level (GAGAS)?         | No  |
| (d)(1)(ii)   | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No  |
| (d)(1)(iii)  | Was there any reported material noncompliance at the financial statement level (GAGAS)?                        | No  |
| (d)(1)(iv)   | Were there any material internal control weakness conditions reported for major federal programs?              | No  |
| (d)(1)(iv)   | Were there any other reportable internal control weakness conditions reported for major federal programs?      | No  |
| (d)(1)(v)    | Type of Major Programs' Compliance Opinion   | Unqualified   |
| (d)(1)(vi)   | Are there any reportable findings under § .510(a) of Circular A-133?   | No  |
| (d)(1)(vii)  | Major Programs (list):   | Special Education Cluster<br>Part B - IDEA<br>CFDA # 84.027 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs  | Type A: > \$300,000<br>Type B: All others                   |
| (d)(1)(ix)   | Low Risk Auditee?  | Yes   |

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

None.

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

None.



Mary Taylor, CPA  
Auditor of State

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT  
FAIRFIELD COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 20, 2007