

**Liberty Union-Thurston
Local School District**

Fairfield County, Ohio

Financial Statements and
Independent Auditor's Reports

June 30, 2004



**Auditor of State
Betty Montgomery**

Board of Education
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, LLC, for the audit period July 1, 2003 through June 30, 2004. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

May 30, 2006

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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, 2004, 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, 2004, 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.

As discussed in Note 3 to the basic financial statements, for 2004, the District implemented GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments."

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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.

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
Columbus, Ohio
March 15, 2006

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

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, 2004. 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. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the School Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Financial Highlights

- ▶ The assets of Liberty Union-Thurston Local School District exceeded its liabilities at June 30, 2004 by \$12,105,563. This balance was comprised of a \$12,004,835 balance in capital assets, net of related debt and net asset amounts restricted for specific purposes and a balance of \$100,728 in unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$299,113, which represents a 2.53 percent increase from 2003.
- ▶ General revenues accounted for \$10,487,434 or 85.22 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,818,669 or 14.78 percent of total revenues of \$12,306,103.
- ▶ The District had \$12,006,990 in expenses related to governmental activities; only \$1,818,669 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 \$10,487,434 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 \$10,165,511 in revenues and \$10,301,689 in expenditures in fiscal year 2004.

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.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

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.

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
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

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
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

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 2004 compared to fiscal year 2003:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
<u>Assets:</u>		
Current and Other Assets	\$9,907,320	\$14,130,864
Capital Assets, Net	16,303,771	12,334,537
<i>Total Assets</i>	<u>26,211,091</u>	<u>26,465,401</u>
<u>Liabilities:</u>		
Long-Term Liabilities	9,630,422	9,822,759
Other Liabilities	4,475,106	4,766,510
<i>Total Liabilities</i>	<u>14,105,528</u>	<u>14,589,269</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	7,727,582	3,315,718
Restricted	4,277,253	8,257,167
Unrestricted	100,728	303,247
<i>Total Net Assets</i>	<u>\$12,105,563</u>	<u>\$11,876,132</u>

Current and other assets decreased \$4,223,544 from fiscal year 2003 due to a decrease in cash and cash equivalents held by the District. Capital assets increased by \$3,969,234 as a result of the renovations to the Elementary School.

Current (other) liabilities decreased \$291,404 due to a deferred revenue decrease of \$383,131 related to taxes receivable.

Long-term liabilities decreased \$192,337 due to scheduled payments made for long-term debt.

The District's largest portion of net assets is related to amounts 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.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

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.

The remaining balance of \$4,277,253 is restricted. The restricted net assets are subject to external restrictions on how they may be used.

Table 2 shows the changes in net assets for fiscal year 2004 since this is the first year the District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available.

Table 2
Changes in Net Assets

	Governmental Activities 2004
<u>Revenues:</u>	
<i>Program Revenue:</i>	
Charges for Services and Sales	\$525,289
Operating Grants and Contributions	1,263,680
Capital Grants and Contributions	29,700
<i>General Revenue:</i>	
Property Tax	3,409,885
Income Tax	1,487,411
Unrestricted Grants and Entitlements	5,019,044
Unrestricted Tuition and Fees	313,174
Gifts and Donations	52,147
Investment Earnings	107,245
Miscellaneous	98,228
<i>Total Revenues</i>	12,306,103
<u>Expenses:</u>	
<i>Program Expenses:</i>	
<i>Instruction:</i>	
Regular	5,113,703
Special	1,102,657
Vocational	345,339

(Continued)

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Table 2
Changes in Net Assets

	2004
<i>Support Services:</i>	
Pupils	466,936
Instructional Staff	510,464
Board of Education	100,366
Administration	943,770
Fiscal	332,337
Operation and Maintenance of Plant	1,201,562
Pupil Transportation	567,174
<i>Operation of Non-Instructional Services:</i>	
Food Service	438,471
Community Service Operations	1,111
Extracurricular Activities	508,769
Interest and Fiscal Charges	374,331
<i>Total Expenses</i>	12,006,990
<i>Change in Net Assets</i>	299,713
Net Assets – Beginning of Year	11,806,450
Net Assets – End of Year	\$12,105,563

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)*

The most significant program expenses for the District are Regular Instruction, Operation and Maintenance of Plant, Special Instruction and Administration. These programs account for 69.64 percent of the total governmental activities. Regular Instruction, which accounts for 42.59 percent of the total, represents costs associated with providing general educational services. Operation and Maintenance of Plant, which represents 10.01 percent of the total, represents costs associated with the operating and maintaining the District's facilities. Special Instruction, which represents 9.18 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration, which represents 7.86 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole.

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 68.49 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 27.71 percent and intergovernmental revenue made up 51.30 percent of the total revenue for the governmental funds in fiscal year 2004.

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.

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 2004, the District received \$5,063,247 through the State's foundation program, which represents 41.14 percent of the total revenue for the governmental funds. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 54.65 percent of governmental program expenses. Support services expenses make up 34.34 percent of governmental expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to fiscal year 2003 are not available.

Table 3
Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
	2004	2004
<i>Program Expenses:</i>		
Instruction	\$6,561,699	\$5,727,082
Support Services	4,122,609	3,720,380
Operation of Non-Instructional Services	439,582	67,929
Extracurricular Activities	508,769	298,599
Interest and Fiscal Charges	374,331	374,331
Total Expenses	\$12,006,990	\$10,188,321

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 and procedures). All governmental funds had total revenues and other financing sources of \$12,336,632 and expenditures of \$16,467,171.

Total governmental funds fund balance decreased by \$4,060,857. The decrease in fund balance for the year was most significant in the Building Fund, a decrease of \$4,074,109, which is the result of renovations to the elementary building being completed. A decrease of \$127,346 in the General Fund reflects expenditures for general operations exceeded revenue received.

The District should remain stable in fiscal years 2005 through 2007. However, projections beyond fiscal year 2007 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.

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 2004, 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 supervisors flexibility for site management.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

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 \$10,120,753 representing a \$53,223 increase from the original budget estimates of \$10,067,530. The final budget reflected a 0.87 percent increase from the original budgeted amount. For the General Fund, the final budget basis expenditures were \$10,508,940 representing a decrease of \$225,206 from the original budget expenditures of \$10,734,146. The final budget reflected a 1.2 percent decrease from the original budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$21.8 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$5.5 million. Table 4 shows fiscal year 2004 balances compared to fiscal year 2003.

Table 4
Capital Assets & Accumulated Depreciation at June 30, 2004

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
<i>Nondepreciable Capital Assets:</i>		
Land	\$600,502	\$600,502
Construction in Progress	4,590,187	398,510
<i>Depreciable Capital Assets:</i>		
Buildings and Improvements	12,748,542	12,740,975
Furniture, Fixtures and Equipment	2,897,917	2,866,880
Vehicles	968,467	923,147
<i>Total Capital Assets</i>	<u>21,805,615</u>	<u>17,530,014</u>
<i>Less Accumulated Depreciation:</i>		
Buildings and Improvements	3,788,845	3,645,839
Furniture, Fixtures and Equipment	1,241,887	1,135,972
Vehicles	471,112	413,666
<i>Total Accumulated Depreciation</i>	<u>5,501,844</u>	<u>5,195,477</u>
Capital Assets, Net	<u><u>\$16,303,771</u></u>	<u><u>\$12,334,537</u></u>

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(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, 2004, the District had \$8,520,000 in general obligation debt outstanding with \$360,000 due within one year. Table 5 summarizes notes and loans outstanding for fiscal year 2004 compared to fiscal year 2003.

Table 5
Outstanding Debt, Governmental Activities at Year End

Purpose	2004	2003
Energy Conservation Notes	\$0	\$20,000
Permanent Improvement Notes	0	68,000
Remodeling Bonds	810,000	945,000
Renovation Bonds	7,710,000	7,900,000
Total	<u>\$8,520,000</u>	<u>\$8,933,000</u>

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. 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 2003, 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 2003 the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court will have two new Justices beginning in calendar year 2004 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
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(Unaudited)*

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

In 2004 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 from 2003 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 90 percent of the District's real estate valuation.

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, 2004

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$5,890,090
Property Taxes Receivable	3,375,720
Income Taxes Receivable	528,136
Accounts Receivable	5,641
Intergovernmental Receivable	94,603
Inventory Held for Resale	11,714
Materials and Supplies Inventory	1,416
Nondepreciable Capital Assets	5,190,689
Depreciable Capital Assets, Net	<u>11,113,082</u>
<i>Total Assets</i>	<u>26,211,091</u>
<u>Liabilities:</u>	
Accounts Payable	110,470
Accrued Wages and Benefits	925,229
Intergovernmental Payable	268,022
Accrued Interest Payable	31,474
Retainage Payable	141,923
Deferred Revenue	2,948,333
Claims Payable	49,655
<i>Long-Term Liabilities:</i>	
Due within One Year	745,993
Due in More Than One Year	<u>8,884,429</u>
<i>Total Liabilities</i>	<u>14,105,528</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	7,727,582
<i>Restricted for:</i>	
Capital Outlay	3,572,372
Debt Service	587,049
Other Purposes	117,832
Unrestricted	<u>100,728</u>
<i>Total Net Assets</i>	<u><u>\$12,105,563</u></u>

See accompanying notes to the basic financial statements and accountant's report.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<u>Governmental Activities:</u>					
<i>Instruction:</i>					
Regular	\$5,113,703	\$43,710	\$85,841	\$0	(\$4,984,152)
Special	1,102,657	40,871	583,317	0	(478,469)
Vocational	345,339	465	80,413	0	(264,461)
<i>Support Services:</i>					
Pupils	466,936	0	5,437	0	(461,499)
Instructional Staff	510,464	0	17,013	29,700	(463,751)
Board of Education	100,366	0	0	0	(100,366)
Administration	943,770	15,937	10,646	0	(917,187)
Fiscal	332,337	0	0	0	(332,337)
Operation and Maintenance of Plant	1,201,562	0	0	0	(1,201,562)
Pupil Transportation	567,174	1,558	321,938	0	(243,678)
<i>Operation of Non-Instructional Services:</i>					
Food Service	438,471	257,524	114,129	0	(66,818)
Community Service	1,111	0	0	0	(1,111)
Extracurricular Activities	508,769	165,224	44,946	0	(298,599)
Interest and Fiscal Charges	374,331	0	0	0	(374,331)
 <i>Total Governmental Activities</i>	\$12,006,990	\$525,289	\$1,263,680	\$29,700	(10,188,321)
 <u>General Revenues:</u>					
<i>Property Taxes Levied for:</i>					
General Purposes					2,645,201
Debt Service					723,333
Capital Outlay					41,351
Income Taxes					1,487,711
Grants and Entitlements not Restricted to Specific Programs					5,019,044
Unrestricted Tuition and Fees					313,174
Gifts and Donations					52,147
Investment Earnings					107,245
Miscellaneous					98,228
 <i>Total General Revenues</i>					10,487,434
 Change in Net Assets					299,113
 <i>Net Assets at Beginning of Year - As Restated (See Note 3)</i>					11,806,450
 <i>Net Assets at End of Year</i>					\$12,105,563

See accompanying notes to the basic financial statements and accountant's report.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2004*

	<u>General</u>	<u>Building</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$639,808	\$3,715,537	\$496,021	\$382,235	\$5,233,601
Property Taxes Receivable	2,629,044	0	693,995	52,681	3,375,720
Income Taxes Receivable	528,136	0	0	0	528,136
Accounts Receivable	5,641	0	0	0	5,641
Intergovernmental Receivable	64,780	0	0	29,823	94,603
Inventory Held for Resale	0	0	0	11,714	11,714
Materials and Supplies Inventory	0	0	0	1,416	1,416
<i>Total Assets</i>	<u>\$3,867,409</u>	<u>\$3,715,537</u>	<u>\$1,190,016</u>	<u>\$477,869</u>	<u>\$9,250,831</u>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities:</u>					
Accounts Payable	\$3,615	\$104,304	\$0	\$2,551	\$110,470
Accrued Wages and Benefits	858,180	0	0	67,049	925,229
Intergovernmental Payable	168,300	0	0	5,545	173,845
Retainage Payable	0	141,923	0	0	141,923
Deferred Revenue	2,472,279	0	608,488	46,286	3,127,053
Compensated Absences Payable	62,340	0	0	0	62,340
<i>Total Liabilities</i>	<u>3,564,714</u>	<u>246,227</u>	<u>608,488</u>	<u>121,431</u>	<u>4,540,860</u>
<u>Fund Balances:</u>					
Reserved for Encumbrances	13,547	1,309,241	0	9,282	1,332,070
Reserved for Property Taxes	198,631	0	85,507	6,395	290,533
<i>Unreserved, Undesignated, Reported in:</i>					
General Fund	90,517	0	0	0	90,517
Special Revenue Funds	0	0	0	238,436	238,436
Debt Service Fund	0	0	496,021	0	496,021
Capital Projects Funds	0	2,160,069	0	102,325	2,262,394
<i>Total Fund Balances</i>	<u>302,695</u>	<u>3,469,310</u>	<u>581,528</u>	<u>356,438</u>	<u>4,709,971</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,867,409</u>	<u>\$3,715,537</u>	<u>\$1,190,016</u>	<u>\$477,869</u>	<u>\$9,250,831</u>

See accompanying notes to the basic financial statements and accountant's report.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Funds Balances	\$4,709,971
<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.	16,303,771
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	178,720
Intergovernmental payables include contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(94,177)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds	(8,520,000)
Accrued interest on bonds	(31,474)
Capital leases	(56,189)
Compensated absences	<u>(991,893)</u>
Total liabilities not reported in funds	(9,599,556)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	<u>606,834</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$12,105,563</u></u>

See accompanying notes to the basic financial statements and accountant's report.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Building	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<i>Revenues:</i>					
Property Taxes	\$2,602,591	\$0	\$726,224	\$102,767	\$3,431,582
Income Taxes	1,487,711	0	0	0	1,487,711
Intergovernmental	5,530,136	0	83,316	643,380	6,256,832
Interest	21,023	85,996	0	226	107,245
Tuition and Fees	399,778	0	0	9,626	409,404
Gifts and Donations	52,147	0	0	55,592	107,739
Extracurricular Activities	0	0	0	171,535	171,535
Charges for Services	3,940	0	0	257,524	261,464
Miscellaneous	68,185	0	0	26,103	94,288
Total Revenues	10,165,511	85,996	809,540	1,266,753	12,327,800
<i>Expenditures:</i>					
<i>Current:</i>					
<i>Instruction:</i>					
Regular	4,767,772	0	0	86,185	4,853,957
Special	720,150	0	0	368,559	1,088,709
Vocational	394,240	0	0	0	394,240
<i>Support Services:</i>					
Pupils	485,577	0	0	6,561	492,138
Instructional Staff	432,423	0	0	60,717	493,140
Board of Education	100,366	0	0	0	100,366
Administration	929,958	0	0	61,461	991,419
Fiscal	325,186	0	12,765	1,847	339,798
Operation and Maintenance of Plant	1,176,287	0	0	1,165	1,177,452
Pupil Transportation	552,270	0	0	0	552,270
Operation of Non-Instructional Services	10,069	0	0	338,478	348,547
Extracurricular Activities	304,022	0	0	193,454	497,476
Capital Outlay	30,391	4,160,105	0	36,118	4,226,614
<i>Debt Service:</i>					
Principal	69,630	0	325,000	68,000	462,630
Interest	3,348	0	373,694	1,691	378,733
Total Expenditures	10,301,689	4,160,105	711,459	1,224,236	16,397,489
Excess of Revenues Over (Under) Expenditures	(136,178)	(4,074,109)	98,081	42,517	(4,069,689)
<i>Other Financing Sources:</i>					
Proceeds from the Sale of Capital Assets	8,832	0	0	0	8,832
Total Other Financing Sources	8,832	0	0	0	8,832
Net Change in Fund Balances	(127,346)	(4,074,109)	98,081	42,517	(4,060,857)
Fund Balances at Beginning of Year - As Restated (See Note 3)	430,041	7,543,419	483,447	313,921	8,770,828
Fund Balances at End of Year	\$302,695	\$3,469,310	\$581,528	\$356,438	\$4,709,971

See accompanying notes to the basic financial statements and accountant's report.

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, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$4,060,857)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,983,144
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(13,910)
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	(21,697)
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.	462,630
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	4,402
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:	
Increase in compensated absences	(207,954)
Increase in intergovernmental payables	<u>(31,304)</u>
Total expenditures not reported in the funds	(239,258)
The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the government-wide statement of activities. Governmental expenditures and the related internal service fund revenue are eliminated. The net revenue (expense) of the internal service fund is allocated among activities.	<u>184,659</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$299,113</u></u>

See accompanying notes to the basic financial statements and accountant's report.

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, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property Taxes	\$2,715,451	\$2,495,927	\$2,492,753	(\$3,174)
Income Taxes	1,561,409	1,569,831	1,567,835	(1,996)
Intergovernmental	5,307,580	5,541,131	5,534,084	(7,047)
Interest	39,454	19,758	21,023	1,265
Tuition and Fees	338,589	381,271	380,786	(485)
Rent	542	876	875	(1)
Gifts and Donations	52,080	52,213	52,147	(66)
Charges for Services	1,726	3,945	3,940	(5)
Miscellaneous	50,699	67,047	67,310	263
<i>Total Revenues</i>	<u>10,067,530</u>	<u>10,131,999</u>	<u>10,120,753</u>	<u>(11,246)</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	4,825,713	4,991,480	4,910,427	81,053
Special	1,125,607	774,639	761,595	13,044
Vocational	492,483	430,593	418,742	11,851
<i>Support Services:</i>				
Pupils	384,422	507,262	498,720	8,542
Instructional Staff	443,717	427,571	420,371	7,200
Board of Education	120,544	99,256	100,385	(1,129)
Administration	867,704	969,777	953,501	16,276
Fiscal	351,212	328,831	323,619	5,212
Operation and Maintenance of Plant	1,140,715	1,104,074	1,164,698	(60,624)
Pupil Transportation	590,339	568,342	560,307	8,035
Operation of Non-Instructional Services	15,232	10,622	10,443	179
Extracurricular Activities	274,102	287,606	282,763	4,843
Capital Outlay	29,106	30,912	30,391	521
<i>Debt Service:</i>				
Principal	70,000	69,630	69,630	0
Interest	3,250	3,348	3,348	0
<i>Total Expenditures</i>	<u>10,734,146</u>	<u>10,603,943</u>	<u>10,508,940</u>	<u>95,003</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(666,616)</u>	<u>(471,944)</u>	<u>(388,187)</u>	<u>83,757</u>
<u>Other Financing Sources:</u>				
Proceeds from the Sale of Capital Assets	0	8,832	8,832	0
Advances In	1,228	1,229	1,229	0
<i>Total Other Financing Sources</i>	<u>1,228</u>	<u>10,061</u>	<u>10,061</u>	<u>0</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</i>	<u>(665,388)</u>	<u>(461,883)</u>	<u>(378,126)</u>	<u>83,757</u>
<i>Fund Balance at Beginning of Year</i>	<u>1,002,202</u>	<u>1,002,202</u>	<u>1,002,202</u>	<u>0</u>
<i>Prior Year Encumbrances Appropriated</i>	<u>8,818</u>	<u>8,818</u>	<u>8,818</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$345,632</u>	<u>\$549,137</u>	<u>\$632,894</u>	<u>\$83,757</u>

See accompanying notes to the basic financial statements and accountant's report.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2004

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$656,489</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Claims Payable	<u>49,655</u>
<u>Net Assets:</u>	
Unrestricted	<u><u>\$606,834</u></u>

See accompanying notes to the basic financial statements and accountant's report.

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, 2004*

	Governmental Activities
	Internal Service Funds
<u>Operating Revenues:</u>	
Charges for Services	\$1,143,360
Other Revenues	42,711
	1,186,071
<u>Operating Expenses:</u>	
Purchased Services	53,445
Materials and Supplies	4,190
Claims	943,777
	1,001,412
<i>Total Operating Revenues</i>	<i>1,186,071</i>
<i>Change in Net Assets</i>	<i>184,659</i>
<i>Net Assets at Beginning of Year</i>	<i>422,175</i>
<i>Net Assets at End of Year</i>	<i>\$606,834</i>

See accompanying notes to the basic financial statements and accountant's report.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Services Provided	\$1,143,360
Other Cash Receipts	42,711
Cash Payments for Goods and Services	(57,635)
Cash Payments for Claims	(992,186)
	<u>136,250</u>
<i>Net Cash from Operating Activities</i>	<u>136,250</u>
<i>Net Increase in Cash and Cash Equivalents</i>	<u>136,250</u>
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>520,239</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$656,489</u></u>
<u>Reconciliation of Operating Income to Net Cash from Operating Activities:</u>	
Operating Income	\$184,659
<u>Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:</u>	
<i>Decrease in Liabilities:</i>	
Claims Payable	<u>(48,409)</u>
Total Adjustments	<u>(48,409)</u>
<i>Net Cash from Operating Activities</i>	<u><u>\$136,250</u></u>

See accompanying notes to the basic financial statements and accountant's report.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2004

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$5,019,528</u>
<u>Liabilities:</u>	
Undistributed Monies	4,982,975
Due to Students	<u>36,553</u>
<i>Total Liabilities</i>	<u><u>\$5,019,528</u></u>

See accompanying notes to the basic financial statements and accountant's report.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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 61 non-certificated employees, 59 certificated full-time teaching personnel and 7 administrative employees who provide services to 1,430 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 18 and 19 to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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, 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 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, 2004*

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, 2004

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, grants and interest.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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, 2004, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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 2004, 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. 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 investments the investment could be sold for on June 30, 2004.

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 2004 amounted to \$21,023, which includes \$14,733 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.

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.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

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 three hundred 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.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments 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 have at least 15 years of service with the District.

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

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

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 "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, special termination of benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Long-term bonds, notes 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.

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.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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

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 2004.

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.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES

Changes in Accounting Principles

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus," GASB Statement No. 38, "Certain Financial Statement Note Disclosures," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements." At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statement Nos. 37 and 38, and GASB Interpretation No. 6.

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

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES -
(Continued)

The government-wide financial statements present the District's programs as governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Restatement of Fund Balances

The restatements for a fund reclassification, an adjustment to income taxes receivable, and GASB Statement No. 34 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

	<u>General</u>	<u>Building</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$370,286	\$7,543,419	\$483,447	\$321,513	\$8,718,665
Fund Reclassification	0	0	0	(7,592)	(7,592)
Understatement of Income Taxes Receivable	59,755	0	0	0	59,755
Adjusted Fund Balances, June 30, 2003	<u>\$430,041</u>	<u>\$7,543,419</u>	<u>\$483,447</u>	<u>\$313,921</u>	8,770,828
<i>GASB 34 Adjustments:</i>					
Property Taxes Receivable					200,417
Capital Assets					12,334,537
Accrued Interest Payable					(35,876)
Intergovernmental Payable					(62,873)
<i>Long-Term Obligations:</i>					
Compensated Absences Payable					(783,939)
Capital Lease Payable					(105,819)
Energy Conservation Notes					(20,000)
Permanent Improvement Notes					(68,000)
General Obligation Bonds					(8,845,000)
Internal Service Fund					422,175
Governmental Activities Net Assets, June 30, 2003					<u>\$11,806,450</u>

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

Accountability

The following funds had a deficit fund balance as of June 30, 2004:

	<u>Deficit Fund Balance</u>
<i>Nonmajor Special Revenue Funds:</i>	
Title V Innovative Education Program	\$10,115
Title I	1,040
Miscellaneous Federal Grants	4

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.
4. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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>	
GAAP Basis	(\$127,346)
<i>Adjustments:</i>	
Revenue Accruals	(44,758)
Expenditure Accruals	(220,944)
Encumbrances	13,693
Other Sources	1,229
Budget Basis	<u><u>(\$378,126)</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.

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.

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

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

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

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

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
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.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year-end, the carrying amount of the District's deposits was (\$40,010), and the bank balance was \$461,188. Of the bank balance, \$100,000 was covered by federal depository insurance; and \$52,448 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institutions' trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 6 - DEPOSITS AND INVESTMENTS - (Continued)

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

	Category 2	Category 3	Carrying Value	Fair Value
Certificate of Deposit	\$202,397	\$0	\$202,397	\$202,397
Federal Agency Securities	3,903,873	0	3,903,873	3,903,873
Repurchase Agreement	0	5,587,682	5,587,682	5,587,682
STAROhio	0	0	1,255,676	1,255,676
Totals	\$4,106,270	\$5,587,682	\$10,949,628	\$10,949,628

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB No. 9. A reconciliation between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$10,909,618	\$0
<i>Investments:</i>		
Certificate of Deposit	(202,397)	202,397
Federal Agency Securities	(3,903,873)	3,903,873
Repurchase Agreement	(5,587,682)	5,587,682
STAROhio	(1,255,676)	1,255,676
GASB Statement No. 3	(\$40,010)	\$10,949,628

NOTE 7 - SCHOOL INCOME TAX

The District currently benefits from a 1.25% income Tax which is assessed on all residents of the District. In the year ended June 30, 2004, the income tax generated \$1,487,711 in revenue. The District apportions all the proceeds to the General Fund.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

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 Counties by June 30, 2004 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the June 2004 personal property tax settlement, delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which become measurable as of June 30, 2004. 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, 2004 was \$290,533 and is recognized as revenue. Of this total amount, \$198,631 was available to the General Fund, \$6,395 was available to the Classroom Facilities Maintenance Nonmajor Special Revenue Fund and \$85,507 was available for the Bond Retirement Debt Service Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$116,395,330	90.19%	\$118,877,120	90.55%
Public Utility Personal	6,407,130	4.96%	6,080,860	4.63%
Tangible Personal Property	6,255,440	4.85%	6,331,925	4.82%
Total Assessed Value	<u>\$129,057,900</u>	<u>100.00%</u>	<u>\$131,289,905</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$37.70		\$46.00	

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 9 - RECEIVABLES

Receivables at June 30, 2004 consisted of property taxes, income taxes and accounts (student fees). All receivables are considered collectible in full.

NOTE 10 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2004 was as follows:

<u>Asset Category</u>	<u>Balance at July 1, 2003</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance at June 30, 2004</u>
<i>Nondepreciable Capital Assets:</i>				
Land	\$600,502	\$0	\$0	\$600,502
Construction in Progress	398,510	4,191,677	0	4,590,187
<i>Depreciable Capital Assets:</i>				
Buildings and Improvements	12,740,975	7,567	0	12,748,542
Furniture, Fixtures and Equipment	2,866,880	50,878	(19,841)	2,897,917
Vehicles	923,147	55,610	(10,290)	968,467
Total Depreciable Capital Assets	16,531,002	114,055	(30,131)	16,614,926
Total Capital Assets	17,530,014	4,305,732	(30,131)	21,805,615
<i>Accumulated Depreciation:</i>				
Buildings and Improvements	(3,645,839)	(143,006)	0	(3,788,845)
Furniture, Fixtures and Equipment	(1,135,972)	(116,889)	10,974	(1,241,887)
Vehicles	(413,666)	(62,693)	5,247	(471,112)
Total Accumulated Depreciation	(5,195,477)	(322,588)	16,221	(5,501,844)
Total Net Capital Assets	<u>\$12,334,537</u>	<u>\$3,983,144</u>	<u>(\$13,910)</u>	<u>\$16,303,771</u>

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	\$169,171
Special	129
Vocational	2,592
<i>Support Services:</i>	
Pupils	3,512
Instructional Staff	32,366
Administration	2,248
Fiscal	1,891
Operation and Maintenance	20,964
Pupil Transportation	63,500
Operation of Non-Instructional Services	5,236
Extracurricular Activities	20,979
	<hr/>
Total Depreciation Expense	<u><u>\$322,588</u></u>

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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 2004, 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)	\$24,441,870
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.

For fiscal year 2004, the District participated in the Ohio School Boards Association Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). 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, 2004*

NOTE 11 - RISK MANAGEMENT - (Continued)

The claims liability of \$49,655 reported at June 30, 2004 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 Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2003	\$155,573	\$893,068	\$950,577	\$98,064
2004	98,064	943,777	992,186	49,655

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 9 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 2004, 9.09 percent of the annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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, 2004, 2003, and 2002 were \$139,824, \$174,296, and \$158,544, respectively; 50 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$69,912 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective funds.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

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 9.3 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 2003, the portion used to fund pension obligations was 9.5 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, 2004, 2003, and 2002 were \$661,341, \$720,552, and \$668,928, respectively; 83.43 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$109,579 representing the unpaid contribution for fiscal year 2004, is recorded as a liability within the respective 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, 2004, no members of the Board of Education have elected Social Security.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

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.

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 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$50,872 during fiscal year 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.011 billion at June 30, 2003 (the latest information available.) For the year ended June 30, 2003, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivorship benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For fiscal year 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay has been established at \$24,500. The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. The number of participants currently receiving health care benefits is approximately 62,000. For the District, the amount to fund health care benefits, including the surcharge, equaled \$97,920 during the 2004 fiscal year.

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. Only administrators and support personnel who are under a full year contract (11 or 12 months) are 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.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 14 - EMPLOYEE BENEFITS - (Continued)

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.

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-fourth of all accumulated sick leave credited to that employee up to 62.5 days. Classified employees receive retirement severance pay equivalent to forty percent of all accumulated sick leave credited to that employee up to 100 days. In addition, teachers and administrators have the following severance incentive: In the school year the employee reaches thirty (30) years of experience, the employee shall receive an addition of 22.5 days severance pay, up to a maximum of 82.5 total, if the employee retires at thirty years of service.

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, 2004, were \$1,341,000, 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, 2004

NOTE 15 - LONG-TERM LIABILITIES

The changes in the District's long-term liabilities during fiscal year 2004 were as follows:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Principal Outstanding at July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding at June 30, 2004</u>	<u>Amount Due In One Year</u>
<i>Governmental Activities:</i>							
Energy Conservation Notes	1993	5.60%	\$20,000	\$0	\$20,000	\$0	\$0
Permanent Improvement Notes	1999	5.00%	68,000	0	68,000	0	0
Remodeling Bonds	1986	7.50%	945,000	0	135,000	810,000	135,000
Renovation Bonds	2002	4.35%	7,900,000	0	190,000	7,710,000	225,000
Total General Obligation Debt			8,933,000	0	413,000	8,520,000	360,000
Compensated Absences Payable			1,008,068	215,814	169,649	1,054,233	334,190
Capital Lease Payable	2002	3.45%	105,819	0	49,630	56,189	51,803
Total Governmental Activities Long-Term Obligations			<u>\$10,046,887</u>	<u>\$215,814</u>	<u>\$632,279</u>	<u>\$9,630,422</u>	<u>\$745,993</u>

In 1993, the District issued a \$120,000 School Energy Conservation Note, which matured in fiscal year 2004. The proceeds of this note are to be used for energy conservation measures including installations, modifications, or remodeling to reduce energy consumption in buildings owned by the District in a proposed project which was approved by the Ohio School Facilities Commission.

In June 1999, the District issued two Permanent Improvement Notes totaling \$340,000 for the purpose of land and building improvements. The notes were issued for five years at 5% interest and matured in December 2003.

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 capital lease payable will be paid from the General Fund.

The District's overall legal debt margin was \$3,296,091 with an unvoted debt margin of \$131,290 at June 30, 2004.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 15 - LONG-TERM LIABILITIES - (Continued)

The annual requirements to retire the general obligation remodeling and renovation bonds outstanding at June 30, 2004, are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Remodeling Bonds</u>	<u>Renovation Bonds</u>	<u>Total</u>
2005	\$190,688	\$529,639	\$720,327
2006	180,562	560,191	740,753
2007	170,438	569,494	739,932
2008	160,313	582,459	742,772
2009	290,250	613,563	903,813
2010-2014	0	3,334,801	3,334,801
2015-2019	0	3,666,369	3,666,369
2020-2021	0	1,239,375	1,239,375
Total Debt Payments	992,251	11,095,891	12,088,142
Less: Amount Representing Interest	182,251	3,385,891	3,568,142
Total Principal	<u>\$810,000</u>	<u>\$7,710,000</u>	<u>\$8,520,000</u>

NOTE 16 - CAPITAL LEASE - LESSEE DISCLOSURE

During fiscal year 2004, the District did not enter into any new capital leases. The District does have a lease-purchase agreement for fitness equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the general purpose financial statements. These expenditures are reflected as function expenditures on a budgetary basis.

A capital asset in the amount of \$150,000 has been capitalized by the District. Principal payments of \$49,630 were made during fiscal year 2004. The principal amount owed on the lease at year end is \$56,189.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 16 - CAPITAL LEASE - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004:

Fiscal Year Ending June 30,	Capital Lease
2005	\$52,800
2006	4,400
Total Future Minimum Lease Payments	57,200
Amount Representing Interest	(1,011)
Present Value of Future Minimum Lease Payments	<u>\$56,189</u>

NOTE 17 - 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.

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.

	Textbooks	Capital Acquisition
Set-Aside Reserve Balance as of June 30, 2003	(\$143,108)	(\$162,030)
Current Year Set-Aside Requirement	195,271	195,271
Qualifying Disbursements	(382,765)	(376,418)
Totals	<u>(\$330,602)</u>	<u>(\$343,177)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>(\$330,602)</u>	<u>(\$343,177)</u>
Set-Aside Reserve Balance as of June 30, 2004	<u>\$0</u>	<u>\$0</u>

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook and capital acquisition set-aside amounts below zero. The extra amounts may be used to reduce set-aside requirements in future years. The total reserve balance for the set-asides at the end of the fiscal year was zero.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2004

NOTE 18 - 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.

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 19 - 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.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004*

NOTE 20 - 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, 2004.

NOTE 21 - SCHOOL FUNDING

On December 11, 2004, 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, 2004, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 15, 2006, wherein we noted that the District implemented GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." 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 March 15, 2006.

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
March 15, 2006



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**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
JUNE 13, 2006**