

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

***BASIC FINANCIAL STATEMENTS
(Audited)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2012***

DAVID BUTLER, TREASURER



Dave Yost • Auditor of State

Board of Education
Liberty Union-Thurston Local School District
1108 South Main Street
Baltimore, Ohio 43105

We have reviewed the *Independent Accountants' Report* of the Liberty Union-Thurston Local School District, Fairfield County, prepared by Julian & Grube, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 7, 2013

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

TABLE OF CONTENTS

Independent Accountants' Report	1 - 2
Management's Discussion and Analysis	3 - 14
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	21
Statement of Net Assets - Proprietary Funds.....	22
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds.....	23
Statement of Cash Flows - Proprietary Funds	24
Statement of Fiduciary Net Assets - Fiduciary Funds	25
Notes to the Basic Financial Statements.....	26 - 54
Supplementary Data:	
Schedule of Receipts and Expenditures of Federal Awards	55
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	56 - 57
Independent Accountants' Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by <i>OMB Circular A-133</i>	58 - 59
Schedule of Findings and Responses <i>OMB Circular A-133 §.505</i>	60 - 62
Status of Prior Audit Findings <i>OMB Circular A-133 §.505</i>	63

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Julian & Grube, Inc. *Serving Ohio Local Governments*

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Independent Accountants' Report

Liberty Union-Thurston Local School District
1108 S. Main Street
Baltimore, Ohio 43105

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty Union-Thurston Local School District, Fairfield County, Ohio, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Liberty Union-Thurston Local School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Liberty Union-Thurston Local School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Liberty Union-Thurston Local School District, Fairfield County, Ohio, as of June 30, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2013 on our consideration of the Liberty Union-Thurston Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Independent Accountants' Report
Liberty Union-Thurston Local School District
Page Two

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Liberty Union-Thurston Local School District's basic financial statements taken as a whole. The Schedule of Receipts and Expenditures of Federal Awards provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is management's responsibility and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Julian & Grube, Inc.
January 24, 2013

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(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, 2012. 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.

Financial Highlights

- ▶ The net assets of Liberty Union-Thurston Local School District exceeded its liabilities at June 30, 2012 by \$30,212,680. This balance was comprised of a \$18,359,636 invested in capital assets, net of related debt and \$6,832,792 net asset amounts restricted for specific purposes and a balance of \$5,020,252 in unrestricted net assets.
- ▶ In total, net assets of governmental activities increased by \$139,603 which represents a 0.46 percent increase from 2011.
- ▶ General revenues accounted for \$12,862,957 or 84.56 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,349,068 or 15.44 percent of total revenues of \$15,212,025.
- ▶ The District had \$15,072,422 in expenses related to governmental activities; only \$2,349,068 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$12,862,957 were used to provide for the remainder of these programs.
- ▶ The District recognizes three major governmental funds: the General, Bond Retirement and Classroom Facilities 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 \$12,181,597 in revenues and other financing sources and \$11,852,296 in expenditures in fiscal year 2012.

Using this Annual Report

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

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

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)*

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, Bond Retirement and Classroom Facilities Funds.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

(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 proprietary funds are internal service funds. Since the internal service funds operate on a break-even, cost-reimbursement basis, the District reports the proprietary funds using the accrual basis of accounting.

Fiduciary Funds

The District's fiduciary funds are agency funds. We exclude the activities from the District's other financial statements because the District cannot use the 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 uses 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, 2012
(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 2012 compared to fiscal year 2011:

Table 1
Net Assets at Year End

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<u>Assets:</u>		
Current and Other Assets	\$20,065,685	\$25,012,612
Capital Assets, Net	<u>28,481,554</u>	<u>24,244,521</u>
<i>Total Assets</i>	<u>48,547,239</u>	<u>49,257,133</u>
<u>Liabilities:</u>		
Long-Term Liabilities	11,896,364	12,633,335
Other Liabilities	<u>6,438,195</u>	<u>6,550,721</u>
<i>Total Liabilities</i>	<u>18,334,559</u>	<u>19,184,056</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	18,359,636	13,462,863
Restricted	6,832,792	11,926,420
Unrestricted	<u>5,020,252</u>	<u>4,683,794</u>
<i>Total Net Assets</i>	<u>\$30,212,680</u>	<u>\$30,073,077</u>

Current and other assets decreased \$4,946,927 from fiscal year 2011 due to decreases in cash and cash equivalents held by the District and intergovernmental receivable related to the school facilities project.

Capital assets increased \$4,237,033 or 17.48 percent as the result of two new construction projects completed in fiscal year 2012.

Current (other) liabilities decreased \$112,526 or 1.71 percent due primarily to decreases in accrued wages payable and contracts payable.

Long-term liabilities decreased \$736,971 as a result of scheduled debt payments.

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

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)*

The District's smallest portion of net assets is unrestricted net assets of \$5,020,252. 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 \$6,832,792 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 2012 and comparisons to fiscal year 2011.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<u>Revenues:</u>		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$620,590	\$661,068
Operating Grants and Contributions	1,728,478	5,014,994
<i>General Revenues:</i>		
Property Taxes	3,861,580	4,188,324
Income Taxes	3,007,302	2,842,895
Unrestricted Grants and Entitlements	5,474,704	2,314,995
Unrestricted Tuition and Fees	367,987	378,246
Investment Earnings	50,353	51,009
Miscellaneous	101,031	104,743
<i>Total Revenues</i>	<u>15,212,025</u>	<u>15,556,274</u>

(Continued)

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)*

Table 2
Changes in Net Assets

	<u>2012</u>	<u>2011</u>
<u>Expenses:</u>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	6,030,894	4,895,848
Special	1,612,235	1,487,358
Vocational	222,260	409,532
Student Intervention Services	486	2,745
Other	66,130	144,124
<i>Support Services:</i>		
Pupils	759,888	699,440
Instructional Staff	633,012	688,405
Board of Education	127,577	75,869
Administration	895,776	1,031,694
Fiscal	555,169	472,263
Operation and Maintenance of Plant	1,692,286	1,367,788
Pupil Transportation	891,291	656,700
<i>Operation of Non-Instructional Services:</i>		
Food Service	511,314	510,773
Extracurricular Activities	683,158	614,860
Interest and Fiscal Charges	390,946	524,735
<i>Total Expenses</i>	<u>15,072,422</u>	<u>13,582,134</u>
<i>Change in Net Assets</i>	139,603	1,974,140
Net Assets-Beginning of Year	<u>30,073,077</u>	<u>28,098,937</u>
Net Assets-End of Year	<u><u>\$30,212,680</u></u>	<u><u>\$30,073,077</u></u>

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)*

The most significant program expenses for the District are Regular Instruction, Operation and Maintenance of Plant, Special Instruction, Administration and Pupil Transportation. These programs account for 73.79 percent of the total governmental activities. Regular Instruction, which accounts for 40.01 percent of the total, represents costs associated with providing general educational services. Operation and Maintenance of Plant, which represents 11.23 percent of the total, represents costs associated with the operating and maintaining the District's facilities. Special Instruction, which represents 10.70 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Administration, which represents 5.94 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole. Pupil Transportation, which represents 5.91 percent of the total, represents costs associated with providing transportation services for students between home and school and to school activities.

As noted previously, the net assets for the governmental activities increased \$139,603 or 0.46 percent. This is a change from last year when net assets increased \$1,974,140 or 7.03 percent. Total revenues decreased \$344,249 or 2.21 percent over last year and expenses increased \$1,490,288 or 10.97 percent.

The District had program revenue decreases of \$3,326,994, as well as an increase in general revenues of \$2,982,745. The decrease in program revenue and the increase in general revenue is primarily due to the reclassification of grants revenue from operating grants to unrestricted grants and entitlements.

The total expenses for governmental activities increased due to increases in regular instruction, pupil transportation and operation and maintenance of plant.

The majority of the funding for the most significant programs indicated above is from operating grants and contributions, property taxes, income taxes, and grants and entitlements not restricted for specific programs. Operating grants and contributions, property taxes, income taxes and grants and entitlements not restricted for specific programs account for 92.51 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 25.39 percent and intergovernmental revenue made up 47.35 percent of the total revenue for the governmental activities in fiscal year 2012.

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 0.5 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 capital improvements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)*

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 2012, the District received \$5,321,640 through the State's foundation program, which represents 34.98 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 52.63 percent of governmental activities program expenses. Support services expenses make up 36.86 percent of governmental activities program expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2012 and comparisons to fiscal year 2011. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3

Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
<i>Program Expenses:</i>				
Instruction	\$7,932,005	\$6,939,607	\$6,670,749	\$3,172,730
Support Services	5,554,999	4,992,159	5,398,139	4,066,602
Operation of Non-Instructional Services	511,314	510,773	(103,266)	(124,905)
Extracurricular Activities	683,158	614,860	366,786	266,910
Interest and Fiscal Charges	390,946	524,735	390,946	524,735
Total Expenses	<u>\$15,072,422</u>	<u>\$13,582,134</u>	<u>\$12,723,354</u>	<u>\$7,906,072</u>

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues and other financing sources of \$15,849,166 and expenditures of \$20,037,009.

Total governmental funds fund balance decreased by \$4,187,843. The decrease in fund balance for the year was most significant in the Classroom Facilities Fund. The fund balance of the Classroom Facilities Fund decreased \$3,238,397 due to capital outlay for the construction project exceeding revenue received for the year. The fund balance of the General Fund increased \$329,301 or 7.28 percent, as the result of revenues exceeding expenditures.

The District should remain stable in fiscal years 2012 through 2013. However, projections beyond fiscal year 2013 show the District may be unable to meet inflationary cost increases in the long-term without additional tax levies or a meaningful change in state funding of public schools as directed by the Ohio Supreme Court.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

(Unaudited)

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 revenues, expenditures, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2012, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's flexibility for site management.

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

For the General Fund, the final budget basis revenue and other financing sources was \$13,060,522 representing an increase of \$1,342,802 or 11.46 percent from the original budget estimate of \$11,717,720. For the General Fund, the final budget basis expenditures were \$12,047,894 representing an increase of \$505,825 or 4.38 percent from the original budget expenditures of \$11,542,069.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$40.1 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$11.6 million. Table 4 shows fiscal year 2012 balances compared to fiscal year 2011.

Table 4

Capital Assets & Accumulated Depreciation at Year End

	Governmental Activities	
	2012	2011
<i>Nondepreciable Capital Assets:</i>		
Land	\$588,863	\$595,953
Construction in Progress	0	8,513,189
<i>Depreciable Capital Assets:</i>		
Land Improvements	1,548,790	1,027,048
Buildings and Improvements	35,706,571	25,331,482
Furniture, Fixtures and Equipment	456,238	586,048
Vehicles	1,034,708	1,010,073
Library and Textbooks	770,652	770,652
<i>Total Capital Assets</i>	<u>40,105,822</u>	<u>37,834,445</u>
<i>Less Accumulated Depreciation:</i>		
Land Improvements	(753,278)	(737,792)
Buildings and Improvements	(9,098,409)	(10,877,011)
Furniture, Fixtures and Equipment	(247,732)	(517,094)
Vehicles	(754,197)	(687,375)
Library and Textbooks	(770,652)	(770,652)
<i>Total Accumulated Depreciation</i>	<u>(11,624,268)</u>	<u>(13,589,924)</u>
Capital Assets, Net	<u>\$28,481,554</u>	<u>\$24,244,521</u>

More detailed information pertaining to the District's capital asset activity can be found in Note 9 of the notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)*

Debt Administration

At June 30, 2012, the District had \$10,549,990 in general obligation debt outstanding with \$805,000 due within one year. Table 5 summarizes bonds outstanding for fiscal year 2012 compared to fiscal year 2011.

Table 5
Outstanding Debt, Governmental Activities at Year End

<u>Purpose</u>	<u>2012</u>	<u>2011</u>
Renovation Bonds	\$465,000	\$900,000
Construction Bonds	5,464,996	5,679,996
Refunding Bonds	<u>4,619,994</u>	<u>4,674,994</u>
Total	<u>\$10,549,990</u>	<u>\$11,254,990</u>

More detailed information pertaining to the District's long-term debt activity can be found in Note 14 of 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 as a result of inflation, but can go down if the valuations decrease. The District also has two income tax issues. A 1.25% issue was passed in May, 1991 and the second issue was passed in May, 2005 and renewed May 2010. They generate about \$2,700,000 per year, this is down from a high of \$2,900,000. 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.

The State of Ohio is in an economic recession. The state biennium budget that was signed by Governor Kasich made dramatic cuts to governmental funding, especially schools. Schools also lost Federal funding (Stimulus funds) approximately 8% of basic state aid. These funds were partially replaced for FY 12 with Federal Funds – Education Jobs, but this is a one year grant. The state budget also made cuts to tangible personal property tax reimbursement (cut of up to 2% of funds received). In our case, we lost an additional \$197,000.

The Liberty Union-Thurston Local School District does not anticipate meaningful losses 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 come to a virtual standstill because of the recession. Residential/agricultural property contributes 96 percent of the District's real estate valuation.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)*

The District voters approved an income tax levy of 0.5 percent in May 2005. This levy is to offset the lack of state funding, but with cuts in state funding the last several years and a decrease in income tax revenue, the District may still have to make cuts to balance its budget. The District's revenue has fallen further behind. This levy is in addition to the 1.25 percent income tax assessed in previous years.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Dave Butler, Treasurer of Liberty Union-Thurston Local School Board of Education, 1108 S. Main Street, Baltimore, Ohio 43105.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Investments	\$13,053,801
Cash and Investments with Fiscal Agent	1,321,920
Cash with Escrow Agent	147,657
Property Taxes Receivable	4,347,337
Income Taxes Receivable	978,518
Accounts Receivable	37,595
Intergovernmental Receivable	26,800
Deferred Charges	152,057
Nondepreciable Capital Assets	588,863
Depreciable Capital Assets, Net	<u>27,892,691</u>
<i>Total Assets</i>	<u>48,547,239</u>
<u>Liabilities:</u>	
Accounts Payable	122,840
Accrued Wages and Benefits	890,632
Contracts Payable	669,353
Intergovernmental Payable	408,043
Retainage Payable	225,112
Accrued Interest Payable	28,393
Matured Compensated Absences Payable	108,795
Deferred Revenue	3,834,774
Claims Payable	150,253
<i>Long-Term Liabilities:</i>	
Due within One Year	973,563
Due in More Than One Year	<u>10,922,801</u>
<i>Total Liabilities</i>	<u>18,334,559</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	18,359,636
<i>Restricted for:</i>	
Capital Outlay	5,100,990
Debt Service	1,170,626
Other Purposes	561,176
Unrestricted	<u>5,020,252</u>
<i>Total Net Assets</i>	<u><u>\$30,212,680</u></u>

See accompanying notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2012

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$6,030,894	\$0	\$383,773	(\$5,647,121)
Special	1,612,235	0	781,599	(830,636)
Vocational	222,260	0	88,332	(133,928)
Student Intervention Services	486	0	0	(486)
Other	66,130	0	7,552	(58,578)
<i>Support Services:</i>				
Pupils	759,888	0	4,845	(755,043)
Instructional Staff	633,012	0	18,145	(614,867)
Board of Education	127,577	0	0	(127,577)
Administration	895,776	11,758	21,968	(862,050)
Fiscal	555,169	0	0	(555,169)
Operation and Maintenance of Plant	1,692,286	0	0	(1,692,286)
Pupil Transportation	891,291	0	100,144	(791,147)
Operation of Non-Instructional Services	511,314	337,769	276,811	103,266
Extracurricular Activities	683,158	271,063	45,309	(366,786)
Interest and Fiscal Charges	390,946	0	0	(390,946)
<i>Total Governmental Activities</i>	<u>\$15,072,422</u>	<u>\$620,590</u>	<u>\$1,728,478</u>	<u>(12,723,354)</u>
<u>General Revenues:</u>				
<i>Property Taxes Levied for:</i>				
General Purposes				2,813,873
Debt Service				968,440
Capital Outlay				79,267
Income Taxes				3,007,302
Grants and Entitlements not Restricted to Specific Programs				5,474,704
Unrestricted Tuition and Fees				367,987
Investment Earnings				50,353
Miscellaneous				101,031
<i>Total General Revenues</i>				<u>12,862,957</u>
Change in Net Assets				139,603
<i>Net Assets at Beginning of Year</i>				<u>30,073,077</u>
<i>Net Assets at End of Year</i>				<u>\$30,212,680</u>

See accompanying notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2012

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Investments	\$5,254,503	\$1,069,833	\$4,829,453	\$1,879,964	\$13,033,753
Cash with Escrow Agent	0	0	147,657	0	147,657
Property Taxes Receivable	3,184,658	1,089,488	0	73,191	4,347,337
Income Taxes Receivable	978,518	0	0	0	978,518
Accounts Receivable	0	0	0	37,595	37,595
Intergovernmental Receivable	0	0	19,943	6,857	26,800
Interfund Receivable	12,322	0	0	0	12,322
<i>Total Assets</i>	<u>\$9,430,001</u>	<u>\$2,159,321</u>	<u>\$4,997,053</u>	<u>\$1,997,607</u>	<u>\$18,583,982</u>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities:</u>					
Accounts Payable	\$116,766	\$0	\$0	\$6,074	\$122,840
Accrued Wages and Benefits	817,059	0	0	73,573	890,632
Contracts Payable	0	0	456,940	212,413	669,353
Intergovernmental Payable	391,969	0	0	16,074	408,043
Retainage Payable	0	0	183,546	41,566	225,112
Interfund Payable	0	0	0	12,322	12,322
Matured Compensated Absences Payable	108,795	0	0	0	108,795
Deferred Revenue	3,144,622	1,074,790	0	72,199	4,291,611
<i>Total Liabilities</i>	<u>4,579,211</u>	<u>1,074,790</u>	<u>640,486</u>	<u>434,221</u>	<u>6,728,708</u>
<u>Fund Balances:</u>					
Restricted	0	1,084,531	4,356,567	1,598,208	7,039,306
Assigned	90,594	0	0	0	90,594
Unassigned	4,760,196	0	0	(34,822)	4,725,374
<i>Total Fund Balances</i>	<u>4,850,790</u>	<u>1,084,531</u>	<u>4,356,567</u>	<u>1,563,386</u>	<u>11,855,274</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$9,430,001</u>	<u>\$2,159,321</u>	<u>\$4,997,053</u>	<u>\$1,997,607</u>	<u>\$18,583,982</u>

See accompanying notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Reconciliation of Total Governmental Fund Balances to

Net Assets of Governmental Activities

June 30, 2012

Total Governmental Funds Balances		\$11,855,274
<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.		28,481,554
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		456,837
Unamortized issuance costs represent deferred charges which do not provide current financial resources and are therefore not reported in the funds.		152,057
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
General obligation bonds	(5,305,000)	
Refunding bonds	(4,155,000)	
Capital appreciation bonds	(1,089,990)	
Accretion on Capital Appreciation Bonds	(201,004)	
Accrued interest on bonds	(28,393)	
Capital leases	(11,802)	
Premiums on bonds	(494,049)	
Deferred charge on refunding	259,575	
Compensated absences	(899,094)	
		<hr/>
Total liabilities not reported in funds		(11,924,757)
Internal service funds are used by management to charge the costs of insurance to individual funds and accounts for rotary services. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		<hr/>
		1,191,715
<i>Net Assets of Governmental Activities</i>		<hr/> <hr/>
		\$30,212,680

See accompanying notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$2,785,000	\$953,547	\$0	\$78,628	\$3,817,175
Income Taxes	3,007,302	0	0	0	3,007,302
Intergovernmental	5,825,844	148,797	612,511	1,186,182	7,773,334
Interest	22,657	0	23,121	4,575	50,353
Tuition and Fees	368,693	0	0	0	368,693
Extracurricular Activities	11,052	0	0	269,886	280,938
Gifts and Donations	21,968	0	0	46,486	68,454
Rentals	60	0	0	0	60
Charges for Services	0	0	0	337,769	337,769
Miscellaneous	94,904	1,977	2,448	1,642	100,971
<i>Total Revenues</i>	<u>12,137,480</u>	<u>1,104,321</u>	<u>638,080</u>	<u>1,925,168</u>	<u>15,805,049</u>
<u>Expenditures:</u>					
<i>Current:</i>					
<i>Instruction:</i>					
Regular	4,755,186	0	0	385,967	5,141,153
Special	1,133,760	0	0	429,847	1,563,607
Vocational	245,309	0	0	0	245,309
Student Intervention Services	486	0	0	0	486
Other	56,794	0	0	9,192	65,986
<i>Support Services:</i>					
Pupils	747,076	0	0	6,319	753,395
Instructional Staff	602,507	0	0	24,572	627,079
Board of Education	127,541	0	0	0	127,541
Administration	877,582	0	0	1,772	879,354
Fiscal	524,659	19,528	0	1,394	545,581
Operation and Maintenance of Plant	1,671,163	0	0	5,829	1,676,992
Pupil Transportation	757,385	0	0	67,704	825,089
Operation of Non-Instructional Services	480	0	0	582,540	583,020
Extracurricular Activities	325,153	0	0	336,573	661,726
Capital Outlay	3,017	0	3,876,477	1,406,981	5,286,475
<i>Debt Service:</i>					
Principal Retirement	22,162	705,000	0	0	727,162
Interest and Fiscal Charges	2,036	325,018	0	0	327,054
<i>Total Expenditures</i>	<u>11,852,296</u>	<u>1,049,546</u>	<u>3,876,477</u>	<u>3,258,690</u>	<u>20,037,009</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	285,184	54,775	(3,238,397)	(1,333,522)	(4,231,960)
<u>Other Financing Sources:</u>					
Proceeds from Sale of Fixed Assets	44,117	0	0	0	44,117
<i>Total Other Financing Sources</i>	<u>44,117</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>44,117</u>
<i>Net Change in Fund Balances</i>	329,301	54,775	(3,238,397)	(1,333,522)	(4,187,843)
<i>Fund Balances at Beginning of Year</i>	<u>4,521,489</u>	<u>1,029,756</u>	<u>7,594,964</u>	<u>2,896,908</u>	<u>16,043,117</u>
<i>Fund Balances at End of Year</i>	<u>\$4,850,790</u>	<u>\$1,084,531</u>	<u>\$4,356,567</u>	<u>\$1,563,386</u>	<u>\$11,855,274</u>

See accompanying notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds (\$4,187,843)

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.	4,310,192
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.	(73,159)
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	44,405
Intergovernmental	(637,429)
Total	(593,024)
Bond issuance costs are reported as expenditures in the governmental funds when due, but in the statement of activities these costs are accrued.	(13,429)
Repayment of bond principal and capital lease payments are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	727,162
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	3,530
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:	
Amortize premium on bonds	47,968
Amortize deferred charges on bonds	(28,842)
Decrease in compensated absences	63,802
Accretion on capital appreciation bonds	(73,119)
Total	9,809
The internal service funds used by management to charge the cost of insurance to individual funds and account for rotary services are not reported in the government-wide statement of activities. Governmental expenditures and the related internal service funds revenue are eliminated. The net revenue (expense) of the internal service funds is allocated among activities.	(43,635)
<i>Change in Net Assets of Governmental Activities</i>	<u>\$139,603</u>

See accompanying notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund*

For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$2,909,943	\$3,873,491	\$2,965,146	(\$908,345)
Income Taxes	2,812,254	2,906,231	2,906,231	0
Intergovernmental	5,502,847	5,830,867	5,825,844	(5,023)
Interest	18,251	18,251	22,101	3,850
Tuition and Fees	377,582	343,319	371,745	28,426
Rent	0	60	60	0
Gifts and Donations	18,468	11,552	11,552	0
Miscellaneous	69,648	67,886	77,598	9,712
Total Revenues	11,708,993	13,051,657	12,180,277	(871,380)
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	4,996,226	4,893,265	4,893,261	4
Special	981,007	1,178,137	1,178,136	1
Vocational	393,712	314,290	314,290	0
Student Intervention Services	2,745	486	486	0
Other	66,108	63,385	63,385	0
<i>Support Services:</i>				
Pupils	650,038	766,491	766,490	1
Instructional Staff	653,942	613,774	613,773	1
Board of Education	73,860	96,593	96,593	0
Administration	971,456	914,686	914,685	1
Fiscal	460,390	450,922	450,923	(1)
Operation and Maintenance of Plant	1,352,509	1,677,095	1,677,095	0
Pupil Transportation	610,137	743,225	743,225	0
Operation of Non-Instructional Services	0	480	480	0
Extracurricular Activities	306,787	328,278	328,278	0
Capital Outlay	23,152	6,787	6,787	0
Total Expenditures	11,542,069	12,047,894	12,047,887	7
Excess of Revenues Over Expenditures	166,924	1,003,763	132,390	(871,373)
<u>Other Financing Sources:</u>				
Proceeds from the Sale of Capital Assets	8,727	8,865	44,117	35,252
Total Other Financing Sources	8,727	8,865	44,117	35,252
Change in Fund Balances	175,651	1,012,628	176,507	(836,121)
Fund Balance at Beginning of Year	4,892,304	4,892,304	4,892,304	0
Prior Year Encumbrances Appropriated	87,530	87,530	87,530	0
Fund Balance at End of Year	\$5,155,485	\$5,992,462	\$5,156,341	(\$836,121)

See accompanying notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Statement of Net Assets

Proprietary Funds

June 30, 2012

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Investments	\$20,048
Cash and Investments with Fiscal Agents	<u>1,321,920</u>
<i>Total Assets</i>	<u>1,341,968</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Claims Payable	<u>150,253</u>
<u>Net Assets:</u>	
Unrestricted	<u><u>\$1,191,715</u></u>

See accompanying notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2012*

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<u>Operating Revenues:</u>	
Charges for Services	\$1,516,098
Other Revenues	<u>7,209</u>
<i>Total Operating Revenues</i>	<u>1,523,307</u>
<u>Operating Expenses:</u>	
Salaries	7,850
Fringe Benefits	1,254
Purchased Services	106,722
Materials and Supplies	5,638
Claims	<u>1,457,478</u>
<i>Total Operating Expenses</i>	<u>1,578,942</u>
<i>Operating Income</i>	<u>(55,635)</u>
<u>Nonoperating Revenues:</u>	
Contributions and Donations	<u>12,000</u>
<i>Total Nonoperating Revenues</i>	<u>12,000</u>
<i>Change in Net Assets</i>	(43,635)
<i>Net Assets at Beginning of Year</i>	<u>1,235,350</u>
<i>Net Assets at End of Year</i>	<u><u>\$1,191,715</u></u>

See accompanying notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2012

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<u>Increase (Decrease) in Cash and Investments:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Services Provided	\$1,516,098
Other Cash Receipts	7,209
Cash Payments for Goods and Services	(112,360)
Cash Payments to Employees	(7,850)
Cash Payments for Employee Benefits	(1,254)
Cash Payments for Claims	<u>(1,507,960)</u>
<i>Net Cash from Operating Activities</i>	<u>(106,117)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Cash Received from Contributions and Donations	<u>12,000</u>
<i>Net Cash from Noncapital Financing Activities</i>	<u>12,000</u>
<i>Net Decrease in Cash and Investments</i>	(94,117)
<i>Cash and Investments at Beginning of Year</i>	<u>1,436,085</u>
<i>Cash and Investments at End of Year</i>	<u><u>\$1,341,968</u></u>
<u>Reconciliation of Operating Loss to Net Cash from Operating Activities:</u>	
Operating Loss	(\$55,635)
<u>Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities:</u>	
<i>Decrease in Liabilities:</i>	
Claims Payable	<u>(50,482)</u>
<i>Net Cash from Operating Activities</i>	<u><u>(\$106,117)</u></u>

See accompanying notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2012

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Investments	<u>\$4,106,700</u>
<u>Liabilities:</u>	
Undistributed Monies	4,055,986
Due to Students	<u>50,714</u>
<i>Total Liabilities</i>	<u><u>\$4,106,700</u></u>

See accompanying notes to the basic financial statements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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 51 non-certificated employees, 81 certificated full-time teaching personnel and 8 administrative employees who provide services to 1,397 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, 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 19 and 20 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

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

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.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

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.

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.

Classroom Facilities Fund- This fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

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 medical 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, 2012*

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 7). Revenue from income taxes is recognized in the period in which the income is earned (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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, 2012, but which were levied to finance fiscal year 2013 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 Investments" on the financial statements.

During the fiscal year 2012, the District's investments were limited to federal agency securities and commercial paper. Investments are reported at fair value which is based on quoted market prices.

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 2012 amounted to \$22,657, which includes \$10,221 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.

On fund financial statements, inventories of governmental funds are stated at cost. Donated commodities are presented at the entitlement value. 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.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

G. Capital Assets

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

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

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

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

H. Compensated Absences

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

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

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

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

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

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 judgments, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Long-term bonds and capital leases are recognized as a liability on the fund financial statements when due.

J. Net Assets

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

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The District has \$6,832,792 of restricted net assets, of which none is restricted by enabling legislation.

K. Fund Balance Reserves

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent because they are either not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because either (a) constraints imposed by law through constitutional provisions, charter requirements or enabling legislation; or (b) constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal ordinances or resolutions of the Board of Education – the District's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Education removes the specified use by taking the same type of action as when imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

Assigned – amounts constrained by the District’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Board of Education, Superintendent and Treasurer have the authority to assign amount to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned – this is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

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. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

M. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Although the legal level of budgetary control was established at the fund level, the District has elected to present the general fund budgetary statement comparison at the fund and function 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 2012.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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

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.

O. Unamortized Bond Issuance Costs/ Bond Premiums/ Accounting Gain or Loss

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Unamortized bond issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and amortized over the term of the bonds. Using the straight-line method, which approximates the effective interest method, bond premiums are presented as an addition to the face amount of the bonds.

For bond refunding resulting in the defeasance of debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental funds financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 14.

NOTE 3 - NEW GASB PRONOUNCEMENT

For fiscal year 2012, the District implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

<u>Net Change in Fund Balance</u>	
Budget Basis	\$176,507
<i>Adjustments:</i>	
Revenue Accruals	(82,277)
Expenditure Accruals	164,632
Funds budgeted elsewhere	(5,115)
Encumbrances	75,554
GAAP Basis	<u><u>\$329,301</u></u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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

Cash with Escrow Agent

At fiscal year end, \$147,657 was on deposit in an escrow account with Peoples Bank related to the High School and Middle School construction projects entered into by the District during fiscal year 2009. The amount on deposit with the escrow agent has been excluded from the total amount of deposits reported below as it is not part of the District's internal investment pool. The June 30, 2012 balance of the escrow account is reported on the financial statements as "cash with escrow agent".

Cash and Investments with Fiscal Agent

At fiscal year end, \$1,321,920 was on deposit in the District's debt service clearing account. This amount is not part of the District's internal investment pool and has been excluded from the total amount of deposits reported below. The June 30, 2012 balance of this account is reported on the financial statements as "cash with fiscal agent".

Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$13,763,238. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$2,981,146 of the District's bank balance of \$13,858,911 was exposed to custodial risk as discussed below, while \$10,877,765 was covered by the FDIC.

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

The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

Investments

As of June 30, 2012, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>12 months or less</u>	<u>More than 12 months</u>
State Municipal Bonds	\$ 505,725	\$ 505,725	\$ -
Federal Agency Securities	<u>2,891,538</u>	<u>-</u>	<u>2,891,538</u>
Total	<u>\$ 3,397,263</u>	<u>\$ 505,725</u>	<u>\$ 2,891,538</u>

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District's investment policy addresses interest rate risk by requiring the consideration of market conditions and cash flow requirements in determining the term of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five year or less.

Credit Risk: The District's investments in federal agency securities were rated AA+ and Aaa by Standards & Poor's and Moody's Investor Services, respectively. The State Municipal Bond carries ratings of Aa2 and AA by Moody's Investor Services and Standards & Poor's, respectively. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District's investment policy addresses concentration of credit risk by encouraging diversification to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issue or a specific class of securities.

The following table includes the percentage of each investment type held by the District at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
State Municipal Bonds	\$ 505,725	14.89
Federal Agency Securities	<u>2,891,538</u>	<u>85.11</u>
Total	<u>\$ 3,397,263</u>	<u>100.00</u>

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 13,763,238
Investments	3,397,263
Cash with escrow agent	147,657
Cash with fiscal agent	<u>1,321,920</u>
Total	<u>\$ 18,630,078</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 14,523,378
Agency fund	<u>4,106,700</u>
Total	<u>\$ 18,630,078</u>

NOTE 6 - SCHOOL INCOME TAX

The District currently benefits from a 1.75% income tax which is assessed on all residents of the District. In the year ended June 30, 2012, the income tax generated \$3,007,302 in revenue. The District apportions all the proceeds to the General Fund.

NOTE 7 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, and public utility located in the District. Real property tax revenue received in calendar 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2012 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in 2012 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 7 - PROPERTY TAXES - (Continued)

The District receives property taxes from Fairfield County. The Fairfield County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012 are available to finance fiscal year 2012 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 2012 personal property tax settlement, delinquent taxes outstanding and real property, and public utility taxes which become measurable as of June 30, 2012. 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, 2012 was \$55,726 and is recognized as revenue. Of this total amount, \$40,036 was available to the General Fund, \$992 was available to the Permanent Improvement Nonmajor Governmental Fund and \$14,698 was available for the Bond Retirement Debt Service Fund.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second - Half Collections		2012 First - Half Collections	
	Amount	Percent	Amount	Percent
Argricultural/Residential and Other Real Estate	\$155,596,620	96.26%	\$155,665,240	96.24%
Public Utility Personal	6,051,440	3.74%	6,080,200	3.76%
Total Assessed Value	<u>\$161,648,060</u>	<u>100.00%</u>	<u>\$161,745,440</u>	<u>100.00%</u>
Total rate per \$1,000 of assessed valuation	\$45.50		\$45.50	

NOTE 8 - RECEIVABLES

Receivables at June 30, 2012 consisted of property taxes, income taxes, grants and accounts receivables. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of Intergovernmental receivables follows:

<u>Governmental Activities:</u>	
Classroom Facilities Fund	\$19,943
<i>Nonmajor Governmental Funds:</i>	
Race to the Top Fund	<u>6,857</u>
Total Intergovernmental Receivable	<u><u>\$26,800</u></u>

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 9 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2012 was as follows:

Asset Category	Balance at July 1, 2011	Transfers/ Additions	Transfers/ Deletions	Balance at June 30, 2012
<i>Nondepreciable Capital Assets:</i>				
Land	\$595,953	\$0	(\$7,090)	\$588,863
Construction in Progress	<u>8,513,189</u>	<u>0</u>	<u>(8,513,189)</u>	<u>0</u>
Total Nondepreciable Capital Assets	9,109,142	0	(8,520,279)	588,863
<i>Depreciable Capital Assets:</i>				
Land Improvements	1,027,048	541,356	(19,614)	1,548,790
Buildings and Improvements	25,331,482	12,939,584	(2,564,495)	35,706,571
Furniture, Fixtures and Equipment	586,048	177,649	(307,459)	456,238
Vehicles	1,010,073	24,635	0	1,034,708
Library and Textbooks	<u>770,652</u>	<u>0</u>	<u>0</u>	<u>770,652</u>
Total Depreciable Capital Assets	<u>28,725,303</u>	<u>13,683,224</u>	<u>(2,891,568)</u>	<u>39,516,959</u>
Total Capital Assets	<u>37,834,445</u>	<u>13,683,224</u>	<u>(11,411,847)</u>	<u>40,105,822</u>
<i>Accumulated Depreciation:</i>				
Land Improvements	(737,792)	(35,100)	19,614	(753,278)
Buildings and Improvements	(10,877,011)	(743,679)	2,522,281	(9,098,409)
Furniture, Fixtures and Equipment	(517,094)	(14,242)	283,604	(247,732)
Vehicles	(687,375)	(66,822)	0	(754,197)
Library and Textbooks	<u>(770,652)</u>	<u>0</u>	<u>0</u>	<u>(770,652)</u>
Total Accumulated Depreciation	<u>(13,589,924)</u>	<u>(859,843)</u>	<u>2,825,499</u>	<u>(11,624,268)</u>
Total Net Capital Assets	<u>\$24,244,521</u>	<u>\$12,823,381</u>	<u>(\$8,586,348)</u>	<u>\$28,481,554</u>

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Regular	\$760,071
Vocational	269
<i>Support Services:</i>	
Instructional Staff	272
Administration	6,951
Operation and Maintenance of Plant	5,875
Pupil Transportation	66,822
Operation of Non-Instructional Services	7,803
Extracurricular Activities	11,780
	<hr/>
Total Depreciation Expense	<u><u>\$859,843</u></u>

NOTE 10 - 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 2012, the District contracted with Ohio Casualty for property and fleet insurance, liability insurance, and public officials bonds. Coverages provided are as follows:

Building/Contents (\$1,000 deductible)	\$28,121,617
Inland Marine (\$1,000 deductible)	28,121,617
Automobile Liability (\$250 deductible)	
Per Occurance	5,000
Per Accident	1,000,000
General Liability:	
Per Occurance	1,000,000
Aggregate Limit	3,000,000
Public Officials Bonds:	
Treasurer	25,000
Superintendent/Board Member (each)	50,000

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 10 - RISK MANAGEMENT - (Continued)

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 2012, the District participated in the Ohio School Boards Association Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 20). 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 predetermined level. Amounts are paid into this fund from the General Fund, Food Service Nonmajor Governmental Fund, and certain Nonmajor Governmental 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.

The South Central Ohio Insurance Consortium was established to accumulate balances sufficient to self-insure basic medical and prescription drug coverage and permit excess umbrella coverage for claims over a predetermined level. The Board's share and the employees' share of premium contributions are determined by the negotiated agreement for certificated employees and by Board action for administrators and classified employees.

Premiums are paid to the South Central Ohio Insurance Consortium Fund from the Self Insurance Fund of the District. The cash balance with the fiscal agent at June 30, 2012, was \$1,321,920. Claims payments are made on an as-incurred basis by the third party administrator, with the balance of contributions remaining with the Fiscal Agent of the Consortium.

The member districts are self insured for medical, dental and pharmacy benefits. The risk for medical, dental and pharmacy benefits remains with the member districts. The claims payable will be reported for medical, dental and pharmacy claims as of June 30, 2012, and cash with fiscal agent for the balance of funds held by the Consortium that covers medical, dental and pharmacy claims will be reported.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 10 - RISK MANAGEMENT - (Continued)

The claims liability of \$150,253 reported at June 30, 2012 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 as amended by GASB 30 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>
2011	\$252,347	\$1,359,514	\$1,411,126	\$200,735
2012	200,735	1,457,478	1,507,960	150,253

NOTE 11 - 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, disability and survivor 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 visiting the SERS website at www.ohsers.org under "Employer/Audit Resources".

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate amount four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's required contributions to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$229,481, \$215,904, and \$273,336, respectively. The District has contributed 83.67 percent of the required contributions for fiscal year 2012 and 100 percent for fiscal year 2011 and 2010, respectively.

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, or by visiting the STRS Ohio website at www.strsoh.org under "Publications".

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$711,226, \$786,311, and \$755,640, respectively. The District has contributed 84 percent of the required contributions for fiscal year 2012 and 100 percent for fiscal year 2011 and 2010, respectively.

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, 2012, no members of the District's Board have elected Social Security.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 12 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System

Plan Description – The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income and the SER's reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad Street, Suite 100, Columbus, OH 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org under "Employers/Audit Resources".

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$42,352,, \$72,450 and \$52,736 respectively; 83.67 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011 and 2010 were \$13,552, \$13,894 and \$16,255 respectively; 83.67 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

State Teachers Retirement System

Plan Description – The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the “Plan”) administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under “Publications” or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District’s contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$54,710, \$60,485 and \$58,126, respectively; 84 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 13 - EMPLOYEE BENEFITS

Compensated Absences

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

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

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

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 13 - EMPLOYEE BENEFITS - (Continued)

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, 2012 are reported by the individual member entities. Members include the following school districts and governmental entities:

Amanda Clearcreek Local School District
Berne Union Local School District
Bloom-Carroll Local School District
Canal Winchester Local School District
Fairfield Union Local School District
Fairfield County Educational Service Center
Lancaster City
Lancaster City School District
Liberty Union-Thurston Local School District
Logan Hocking Local School District
Miami Trace Local School District
Perry Hocking Educational Service Center
Washington Court House City School District

Employee Benefits Management Company (EBMC), 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, 2012*

NOTE 14 - LONG-TERM LIABILITIES

The changes in the District's long-term liabilities during fiscal year 2012 were as follows:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Principal Outstanding at July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding at June 30, 2012</u>	<u>Amount Due In One Year</u>
<i>Governmental Activities:</i>							
<i>Advance Refunding Bonds:</i>							
Term Bonds	2011	3.14%	\$4,210,000	\$0	\$55,000	\$4,155,000	\$110,000
Premium on Bonds			375,771	0	37,577	338,194	37,577
Deferred Charges on Bonds			(288,417)	0	(28,842)	(259,575)	0
Capital Appreciation Bonds			464,994	0	0	464,994	0
Accretion on Refunding Bonds			23,273	24,315	0	47,588	0
Renovation Bonds	2002	4.35%	900,000	0	435,000	465,000	465,000
<i>Construction Bonds:</i>							
Term Bonds	2009	4.27%	5,055,000	0	215,000	4,840,000	230,000
Premium on Bonds			166,246	0	10,391	155,855	10,390
Capital Appreciation Bonds			624,996	0	0	624,996	0
Accretion on Construction Bonds			104,612	48,804	0	153,416	0
Total General Obligation Debt			11,636,475	73,119	724,126	10,985,468	852,967
Compensated Absences Payable			962,896	269,443	333,245	899,094	108,794
Capital Leases Payable			33,964	0	22,162	11,802	11,802
Total Governmental Activities Long-Term Obligations			<u>\$12,633,335</u>	<u>\$342,562</u>	<u>\$1,079,533</u>	<u>\$11,896,364</u>	<u>\$973,563</u>

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 are paid from the Bond Retirement Debt Service Fund using property tax revenues.

On September 10, 2009, the District issued general obligation bonds of \$6,000,000 with an interest rate of 4.27 percent to pay off the Bond Anticipation Note. The general obligation bonds were issued as a result of the District being approved for the school facilities funding through the State Department of Education. The District issued the general obligation bonds to provide a partial cash match to the school facilities funding. As a requirement of the school facilities funding program, the District passed a 2.80 mill levy. Of the 2.80 mill levy, 2.3 mills is used for the retirement of the bonds that were issued and are in effect for eighteen years. The remaining .5 mill is used for repairs and maintenance of the facility. These bonds are paid from the Bond Retirement Debt Service Fund using property tax revenues. Of these bond proceeds, \$700,642 was unspent at June 30, 2012.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 14 - LONG-TERM LIABILITIES - (Continued)

The capital appreciation bonds are not subject to a mandatory sinking fund or optional redemption prior to stated maturity. The capital appreciation bonds will mature in fiscal years 2018, 2019, and 2020. The maturity of the bonds is \$1,225,000. For fiscal year 2012, \$48,804 was accreted on the capital appreciation bonds.

In June 2011, the District issued \$4,674,994 of voted general obligation bonds for the advance refunding of \$4,675,000 in the 2002 series bonds. The \$375,771 premium on the issuance of the refunding bonds is netted against this new debt and will be amortized over the life of this new debt, which has a remaining life of 10 years. The refunding was undertaken to reduce total future debt service payments. The refunding resulted in an economic gain of \$484,989 and a reduction of \$191,506 in future debt service payments. The bonds were issued for a 10 year period, with final maturity December 1, 2020. The refunding bonds are retired from the Bond Retirement Debt Service Fund.

The capital appreciation bonds are not subject to a mandatory sinking fund or optional redemption prior to stated maturity. The capital appreciation bonds will mature in fiscal years 2019 and 2020. The maturity of the bonds is \$1,095,000. For fiscal year 2012, \$24,315 was accreted on the capital appreciation bonds.

Compensated absences will be paid from the fund from which the employee is paid which is primarily the General Fund. The capital leases payable are paid from the General Fund.

The District's overall legal debt margin was \$5,091,631 unvoted debt margin of \$161,745 at June 30, 2012.

The annual requirements to retire the general obligation refunding, renovation bonds, and construction bonds outstanding at June 30, 2012, are as follows:

Year Ending June 30	Renovation Bonds		Construction Bonds			Advance Refunding Bonds		
	Principal	Interest	Term Bonds Principal	Capital Appreciation Bonds Principal	Interest	Principal	Capital Appreciation Bonds Principal	Interest
2013	\$465,000	\$224,472	\$230,000	\$0	\$190,216	\$110,000	\$0	\$102,488
2014	0	0	280,000	0	182,216	610,000	0	100,287
2015	0	0	295,000	0	172,504	655,000	0	88,088
2016	0	0	310,000	0	161,916	665,000	0	74,987
2017	0	0	375,000	0	149,460	685,000	0	60,025
2018-2022	0	0	885,000	624,996	1,277,357	1,430,000	464,994	694,656
2023-2027	0	0	2,465,000	0	256,482	0	0	0
Total Debt Payments	<u>\$465,000</u>	<u>\$224,472</u>	<u>\$4,840,000</u>	<u>\$624,996</u>	<u>\$2,390,151</u>	<u>\$4,155,000</u>	<u>\$464,994</u>	<u>\$1,120,531</u>

The \$11,802 of outstanding capital leases payable relates to the lease/purchase of copiers.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 15 - CAPITAL LEASES

The following is a schedule of the future minimum lease payment required under the capital leases and the present value of the minimum lease payment as of June 30, 2012:

Fiscal Year Ending June 30,	Capital Leases Payments
2013	\$12,098
Total Future Minimum Lease Payments	12,098
Amount Representing Interest	(296)
Present Value of Future Minimum Lease Payments	<u>\$11,802</u>

NOTE 16 - FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	General	Bond Retirement	Classroom Facilities	Nonmajor Governmental Funds	Total Governmental Funds
<i>Restricted:</i>					
<i>Special Revenues:</i>					
Extracurricular	\$0	\$0	\$0	\$87,194	\$87,194
Facilities Maintenance	0	0	0	573,373	573,373
Food Service	0	0	0	194,653	194,653
Other Local Grants	0	0	0	195	195
Federal Grants	0	0	0	6,061	6,061
Debt Service	0	1,084,531	0	0	1,084,531
Capital Projects	0	0	4,356,567	736,732	5,093,299
<i>Assigned:</i>					
Encumbrances	75,554	0	0	0	75,554
Public School Support	15,040	0	0	0	15,040
<i>Unassigned</i>	<u>4,760,196</u>	<u>0</u>	<u>0</u>	<u>(34,822)</u>	<u>4,725,374</u>
Total Fund Balances	<u>\$4,850,790</u>	<u>\$1,084,531</u>	<u>\$4,356,567</u>	<u>\$1,563,386</u>	<u>\$11,855,274</u>

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 17 - STATUTORY SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following changes occurred in the District's set-aside reserve accounts during fiscal year 2012:

	<u>Capital Acquisition</u>
Set-Aside Reserve Balance as of June 30, 2011	\$0
Current Year Set-Aside Requirement	239,578
Qualifying Disbursements	<u>(590,333)</u>
Total	<u>(350,755)</u>
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>
Set-Aside Reserve Balance as of June 30, 2012	<u>\$0</u>

NOTE 18 - ENCUMBRANCE COMMITMENTS

At June 30, 2012, the District had encumbrance commitments in the Governmental Funds as follows:

<u>Major Funds</u>	
General	\$75,554
Classroom Facilities	1,120,830
<u>Nonmajor Funds</u>	
Food Service	5,105
Building	241,496
Literacy Grant	50
Public School Support	295
Extracurriculars	9,066
Race to the Top	2,409
Total Nonmajor Funds	<u>258,421</u>
Total Encumbrances	<u>\$1,454,805</u>

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

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 medical and dental 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.

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 20 - INSURANCE PURCHASING POOL

Ohio School Boards Association Worker's Compensation Group Rating Program

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

NOTE 21 - CONTINGENCIES

Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

Litigation

The District is involved in no material litigation as either plaintiff or defendant.

SUPPLEMENTARY DATA

**LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL RECEIPTS	(B) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
<i>Child Nutrition Grant Cluster:</i>				
(D) (E) School Breakfast Program	10.553	2012	\$ 44,224	\$ 44,224
(C) (D) National School Lunch Program - Food Donation	10.555	2012	34,287	34,287
(D) (E) National School Lunch Program	10.555	2012	193,596	193,596
Total National School Lunch Program			227,883	227,883
Total U.S. Department of Agriculture and Child Nutrition Grant Cluster			272,107	272,107
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION				
<i>Title I Grant Cluster:</i>				
(F) (H) Title I Grants to Local Educational Agencies	84.010	2011	9,568	16,929
(F) (H) Title I Grants to Local Educational Agencies	84.010	2012	128,262	133,618
Total Title I Grants to Local Educational Agencies			137,830	150,547
(F) ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2011	10,835	4,119
Total Title I Grant Cluster			148,665	154,666
<i>Special Education Grant Cluster:</i>				
(G) Special Education_Grants to States	84.027	2012	228,084	228,084
(G) ARRA - Special Education_Grants to States, Recovery Act	84.391	2011	25,000	25,000
Total Special Education Grant Cluster			253,084	253,084
Educational Technology State Grants	84.318	2012	1,069	1,069
Improving Teacher Quality State Grants	84.367	2011	24,928	35,006
Improving Teacher Quality State Grants	84.367	2012	75,521	75,521
Total Improving Teacher Quality State Grants			100,449	110,527
Education Jobs	84.410	2012	315,851	315,851
ARRA - (SFSP) - Race to the Top Incentive Grants, Recovery Act	84.395A	2011	1,893	-
ARRA - (SFSP) - Race to the Top Incentive Grants, Recovery Act	84.395A	2012	23,851	30,707
ARRA - (SFSP) - Race to the Top Incentive Grants, Recovery Act - Ohio Performance Assessment Pilot Project	84.395A	2012	25,885	25,994
Total ARRA - State Fiscal Stabilization Fund (SFSP) - Race to the Top Incentive Grants, Recovery Act			51,629	56,701
Total U.S. Department of Education			870,747	891,898
ENVIRONMENTAL PROTECTION AGENCY PASSED THROUGH THE OHIO ENVIRONMENTAL PROTECTION AGENCY				
State Clean Diesel Grant Program	66.040	B2011S-016	42,705	42,705
Total Federal Financial Assistance			\$ 1,185,559	\$ 1,206,710

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS:

- (A) OAKS did not assign pass through numbers for fiscal year 2012 for the grants passed through the Ohio Department of Education.
- (B) This schedule was prepared on the cash basis of accounting.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (D) Included as part of "Child Nutrition Grant Cluster" in determining major programs.
- (E) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (F) Included as part of "Title I Grant Cluster" in determining major programs.
- (G) Included as part of "Special Education Grant Cluster" in determining major programs.
- (H) The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with Ohio Department of Education ("ODE")'s approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2012, the ODE authorized the following transfers:

Program Title	CFDA	Grant Year	Transfers Out	Transfers In
Title I Grants to Local Educational Agencies	84.010	2011	\$ 4,932	
Title I Grants to Local Educational Agencies	84.010	2012		\$ 4,932
Total			\$ 4,932	\$ 4,932



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Liberty Union-Thurston Local School District
1108 S. Main Street
Baltimore, Ohio 43105

To the Board of Education:

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, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Liberty Union-Thurston Local School District's basic financial statements and have issued our report thereon dated January 24, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Liberty Union-Thurston Local School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Liberty Union-Thurston Local School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Liberty Union-Thurston Local School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider a significant deficiency in internal control over financial reporting. We consider finding 2012-LUTLSD-001 to be a significant deficiency. A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Education
Liberty Union-Thurston Local School District

Compliance and Other Matters

As part of reasonably assuring whether the Liberty Union-Thurston Local School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

The Liberty Union-Thurston Local School District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Liberty Union-Thurston Local School District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the management and Board of Education of the Liberty Union-Thurston Local School District, federal awarding agencies and pass-through entities, and others within the Liberty Union-Thurston Local School District. We intend it for no one other than these specified parties.



Julian & Grube, Inc.
January 24, 2013



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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Accountants' Report on Compliance With Requirements Applicable to Each
Major Federal Program and on Internal Control Over Compliance
Required by OMB Circular A-133**

Liberty Union-Thurston Local School District
1108 S. Main Street
Baltimore, Ohio 43105

To the Board of Education:

Compliance

We have audited the compliance of the Liberty Union-Thurston Local School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Liberty Union-Thurston Local School District's major federal program for the fiscal year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings and responses identifies the Liberty Union-Thurston Local School District's major federal program. The Liberty Union-Thurston Local School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Liberty Union-Thurston Local School District's compliance based on our audit.

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

In our opinion, the Liberty Union-Thurston Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2012.

Internal Control Over Compliance

The Liberty Union-Thurston Local School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Liberty Union-Thurston Local School District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of Liberty Union-Thurston Local School District's internal control over compliance.

Board of Education
Liberty Union-Thurston Local School District

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the management and Board of Education of Liberty Union-Thurston Local School District, federal awarding agencies and pass-through entities, and others within Liberty Union-Thurston Local School District. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
January 24, 2013

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Education Jobs, CFDA #84.410
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2012-LUTLSD-001

Significant Deficiency - Financial Statement Presentation

Accurate financial reporting is an important part of the District's overall purpose. Financial reporting requires internal controls in place to help ensure accuracy of reporting.

The following adjustments were identified by the District and were recorded to properly state the District's financial statements for the fiscal year ended June 30, 2012:

General Fund:

An adjustment was necessary to decrease accrued wages and benefits by \$587,956 and decrease the expenses associated with the accrual by \$587,956 to properly state accrued wages and benefits and payroll expenses at fiscal year end.

Classroom Facilities:

An adjustment was necessary to increase capital outlay by \$480,656, increase cash in escrow by \$147,657, increase retainage payable by \$183,546 and increase contracts payable by \$444,767. This adjustment was to properly account for construction work completed at June 30, 2012, but not yet paid for, as well as record cash the District had in separate bank accounts, held for escrow and record the retainage payable for remaining contracts.

Aggregate Remaining:

An adjustment was necessary to decrease cash and investments with fiscal agents in the amount of \$182,493 and increase claims expense by \$182,493 to properly state the cash balance and claims expense at fiscal year end. Another adjustment was necessary to increase capital outlay expense by \$250,437 and increase contracts payable by \$208,871 and retainage payable by \$41,566 to account for the remaining contracts for two building projects that were complete at June 30, 2012.

The audited financial statements have been adjusted for the misstatements above. In addition, there were numerous modifications to the required note disclosures, such as recalculation of GASB 40 disclosures.

The presentation of materially correct financial statements and the related footnotes is the responsibility of management.

We recommend that the District implement additional control procedures that enable management to more timely prevent or detect and correct potential misstatements in the financial statements and footnotes prior to presenting to the auditors.

Client's Response: Due to unforeseen circumstances, significant District personnel were unavailable from the end of June through November which contributed to the inability to have a thorough review of the GAAP report prior to submitting to the auditors. The District will work more timely with J. L. Uhrig and Associates, Certified Public Accountant and Management Consultants to correct any misstatements prior to presenting to the auditors.

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

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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

**STATUS OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2011-LUTLSD-001	<u>Significant Deficiency - Financial Statement Presentation</u> - Accurate financial reporting is an important part of the District's overall purpose. Financial reporting requires internal controls in place to help ensure accuracy of reporting.	No	Repeated as finding 2012-LUTLSD-001



Dave Yost • Auditor of State

LIBERTY UNION-THURSTON LOCAL SCHOOL DISTRICT

FAIRFIELD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 19, 2013**