



**Dave Yost • Auditor of State**

**Liberty Local School District  
Trumbull County, Ohio**

**Financial Forecast  
For the Fiscal Year Ending June 30, 2012**

**Local Government Services Section**



Liberty Local School District  
Trumbull County

Table of Contents

Title	Page
Table of Contents .....	1
Certification .....	2
Independent Accountant’s Report.....	3
Statement of Revenues, Expenditures and Changes in Fund Balance for the Fiscal Years Ended June 30, 2009 through 2011 Actual; Fiscal Year Ending June 30, 2012 Forecasted .....	4
Summary of Significant Forecast Assumptions and Accounting Policies .....	5

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# Dave Yost • Auditor of State

Financial Planning and Supervision Commission  
Ohio Department of Education  
25 South Front Street  
Columbus, Ohio 43215

and

Board of Education  
Liberty Local School District  
4115 Shady Road  
Youngstown, Ohio 44505

## CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the Liberty Local School District, Trumbull County, Ohio, and issued a report dated September 27, 2011. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit for the fiscal year ending June 30, 2012 of \$1,921,000.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2013 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating deficit may be reduced to the extent tax advances are received prior to June 30, 2012 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2012.

DAVE YOST  
Auditor of State

A handwritten signature in cursive script that reads "Unice S. Smith".

Unice S. Smith  
Chief of Local Government Services

November 10, 2011

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# Dave Yost • Auditor of State

Board of Education  
Liberty Local School District  
4115 Shady Road  
Youngstown, Ohio 44505

## Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the Liberty Local School District for the fiscal year ending June 30, 2012. The Liberty Local School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented in conformity with guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the Board's forecast. However, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The statement of revenues, expenditures and changes in fund balance arising from cash transactions of the general fund for the fiscal years ended June 30, 2009, 2010, 2011 were compiled by us and we have not audited or reviewed the accompanying financial statements, and, accordingly, we do not express an opinion or provide any assurance about whether the financial statements are in accordance with the cash basis of accounting. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements. Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that no material modifications that should be made to the financial statements. Management has chosen to omit the disclosures associated with the cash basis of accounting.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST  
Auditor of State

September 27, 2011

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**Liberty Local School District**  
Trumbull County  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Fiscal Years Ended June 30, 2009 Through 2011 Actual;  
For the Fiscal Year Ending June 30, 2012 Forecasted  
General Fund

	Fiscal Year 2009 Actual	Fiscal Year 2010 Actual	Fiscal Year 2011 Actual	Fiscal Year 2012 Forecasted
<b>Revenues</b>				
General Property Tax	\$7,476,000	\$7,145,000	\$7,245,000	\$7,602,000
Tangible Personal Property Tax	173,000	49,000	26,000	0
Unrestricted Grants-in-Aid	5,297,000	5,050,000	4,943,000	5,044,000
Restricted Grants-in-Aid	162,000	53,000	16,000	15,000
Restricted Federal Grants-in-Aid	0	348,000	589,000	0
Property Tax Allocation	1,554,000	1,676,000	1,699,000	1,398,000
All Other Revenues	1,171,000	1,221,000	806,000	1,007,000
<i>Total Revenues</i>	<u>15,833,000</u>	<u>15,542,000</u>	<u>15,324,000</u>	<u>15,066,000</u>
<b>Other Financing Sources</b>				
Proceeds from Sale of Notes	563,000	1,776,000	0	0
<i>Total Revenues and Other Financing Sources</i>	<u>16,396,000</u>	<u>17,318,000</u>	<u>15,324,000</u>	<u>15,066,000</u>
<b>Expenditures</b>				
Personal Services	7,945,000	7,517,000	7,301,000	7,602,000
Employees' Retirement/Insurance Benefits	3,909,000	3,860,000	3,376,000	3,545,000
Purchased Services	3,263,000	3,409,000	3,911,000	2,920,000
Supplies and Materials	457,000	319,000	261,000	343,000
Capital Outlay	29,000	34,000	12,000	20,000
Debt Service:				
Principal - HB 264 Loan	0	0	0	155,000
Principal - Notes	355,000	355,000	523,000	523,000
Interest	31,000	79,000	158,000	209,000
Other Objects	968,000	912,000	1,077,000	1,126,000
<i>Total Expenditures</i>	<u>16,957,000</u>	<u>16,485,000</u>	<u>16,619,000</u>	<u>16,443,000</u>
<b>Other Financing Uses</b>				
Transfers Out	60,000	424,000	41,000	30,000
Advances Out	0	0	0	80,000
All Other Financing Uses	0	0	7,000	0
<i>Total Other Financing Uses</i>	<u>60,000</u>	<u>424,000</u>	<u>48,000</u>	<u>110,000</u>
<i>Total Expenditures and Other Financing Uses</i>	<u>17,017,000</u>	<u>16,909,000</u>	<u>16,667,000</u>	<u>16,553,000</u>
<i>Excess of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses</i>	(621,000)	409,000	(1,343,000)	(1,487,000)
Cash Balance (Deficit) July 1	1,246,000	625,000	1,034,000	(309,000)
Cash Balance (Deficit) June 30	<u>625,000</u>	<u>1,034,000</u>	<u>(309,000)</u>	<u>(1,796,000)</u>
<b>Encumbrances and Reserves of Fund Balance:</b>				
Actual/Estimated Encumbrances June 30	421,000	210,000	6,000	85,000
Reserves for Textbooks	276,000	422,000	639,000	0
Reserves for Bus Purchase	40,000	40,000	40,000	40,000
<i>Total Encumbrances and Reserves of Fund Balance</i>	<u>737,000</u>	<u>672,000</u>	<u>685,000</u>	<u>125,000</u>
Unencumbered/Unreserved Fund Balance (Deficit) June 30	<u>(\$112,000)</u>	<u>\$362,000</u>	<u>(\$994,000)</u>	<u>(\$1,921,000)</u>

See accompanying summary of significant forecast assumptions and accounting policies  
See accountant's report



**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

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**Note 1 - The School District**

The Liberty Local School District (the School District) is located in Trumbull County and includes all of Liberty Township, Ohio. The School District is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates five instructional buildings. The School District is staffed by 70 non-certified and 110 certificated personnel who provide services to 1,291 students and other community members.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the Liberty Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of September 27, 2011, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

**Note 3 - Nature of the Presentation**

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund revenues received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. For presentation in the forecast, the School District's State Fiscal Stabilization Fund, the Education Jobs Grant fund and the general fund supported debt are included in the general fund.

**Note 4 - Summary of Significant Accounting Policies**

**A. - Basis of Accounting**

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget basis (non-GAAP) of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

**B. - Fund Accounting**

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

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**Governmental Funds**

General Fund - The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds - Special revenue funds account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Fund - Debt service funds account for and report financial resources that are restricted, committed, or assigned to payment of principal and interest.

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital outlays.

Permanent Funds - Permanent funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for the benefit of the School District or its students.

**Proprietary Funds**

Enterprise Funds - Enterprise funds account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds - Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments on a cost-reimbursement basis.

**Fiduciary Funds**

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations or other government units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds.

**C. - Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

Budget - A budget of estimated cash receipts and disbursements is submitted to the Trumbull County Auditor, as secretary of the county budget commission, by January 20 of each year, for the succeeding fiscal year.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

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Estimated Resources - The county budget commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

**Note 5 - General Operating Assumptions**

The Liberty Local School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources**

**A. - General and Tangible Personal Property Taxes**

Property taxes are applied to real property, public utility real and personal property, and manufactured homes which are located within the School District. Tangible personal property used in businesses was taxed in calendar years prior to 2011. Property taxes are collected for, and distributed to, the School District by the county auditor and treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. The School District may request advances from the Trumbull County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenue received during calendar year 2012 (the collection year) for real and public utility property taxes represents collections of 2011 taxes (the tax year). Property tax payments received during calendar year 2011 for tangible personal property (other than public utility property) are for delinquent taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account "Property Tax Allocation".

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

Prior to fiscal year-end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against fiscal year 2013 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2012.

The property tax revenues for the general fund are generated from several levies. The levies being collected for the general fund, the year approved, first and last year of collection, and the full tax rate are as follows:

Tax Levies	Year Approved	First Calendar Year of Collection	Last Calendar Year of Collection	Full Tax Rate (per \$1,000 of assessed valuation)
Inside Ten Mill Limitation (Unvoted)	n/a	n/a	n/a	\$5.70
Continuing Operating	1976	1977	n/a	21.00
Continuing Operating	1999	2000	n/a	5.50
Emergency (\$740,680)	2006	2007	2011	3.10
Emergency (\$839,831)	2009	2010	2014	3.50
Emergency (\$1,776,316)	2010	2011	2015	7.40
Total Tax Rate				\$46.20

The School District also has levies for bonded debt and permanent improvements totaling \$4.70 per \$1,000 of assessed valuation. The School District's total rate is \$50.90 per \$1,000 of valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property tax revenues on carryover property as in the prior year. Reduction factors are also adjusted to generate the same amount of property tax revenue on carryover property when there is a decline in the assessed valuation of property. For all voted levies, except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) nor to tangible personal or public utility property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below 20 mills. For the general fund, the effective residential and agricultural real property tax rate is \$36.64 per \$1,000 of assessed valuation for collection year 2011, and the effective commercial and industrial real property tax rate is \$37.57 per \$1,000 of assessed valuation for collection year 2011.

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase-out of the tangible personal property tax on local

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

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and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies. The State of Ohio reimburses the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

General Property Tax - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The School District anticipates an increase of \$357,000 from fiscal year 2011 to fiscal year 2012 based upon information provided by the County Auditor and a review of historical and current fiscal year tax settlements at the School District.

Tangible Personal Property Tax - Tangible personal property tax was levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the assessment rate on personal property began a phase-out of the tax. No tangible personal property taxes were levied or collected since calendar year 2009 from general business taxpayers and no tangible personal property tax on telephone property is collected after calendar year 2010. The State of Ohio reimbursed the School District for the loss of tangible personal property taxes as a result of the changes in House Bill 66 within certain limitations (see Property Tax Allocation below). The decrease in revenue for the forecast period compared to the prior fiscal year is due to the phase-out of tangible personal property taxes.

**B. - Unrestricted Grants-in-Aid**

In fiscal year 2009, the State's foundation program, established by Chapter 3317 of the Ohio Revised Code, included formula aid and various categorical aid programs such as special and gifted education, career and technical education and transportation. Other programs such as parity aid, excess cost supplement and transitional aid guarantee provided to address certain policy issues or to correct flaws in formula aid, were also included in this revenue. The semi-monthly payments were calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM), times a per pupil foundation level, less the equivalent of 23 mills times the School District's taxable property valuation. The per pupil foundation level was set by State Legislature. The per pupil amount was increased by four base supplements called "building blocks." The building blocks were funding for intervention, professional development, data based decision making, and professional development for data based decision making.

The per pupil amount for fiscal year 2009 was \$5,783 and that included \$51 for the Building Blocks.

Beginning in fiscal year 2010, the State General Assembly adopted a new funding method called the Ohio Evidence-Based Model (OEBM). The Ohio Evidence-based Model was established in Chapter 3306 of the Ohio Revised Code and links educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporates real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount is the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors are multiplied against the Ohio education challenge factor (a school district's wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation are student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount is offset by the school district share of the adequacy amount (the charge off amount), which is equal to 22 mills of property taxes for fiscal years 2010 and 2011.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

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The State Department of Education, Division of School Finance calculates the annual funding, including the adequacy amount, and distributes a prorated share bi-monthly to the School District. In transitioning to the Ohio Evidence-Based Model, the gifted, enrichment, technology service support components and the charge off amount are phased in over a five year period. In addition, school districts were guaranteed 98 percent of the prior fiscal year's State Foundation aid for the current fiscal year.

In fiscal years 2010 and 2011, approximately seven percent of the adequacy funding is provided from a State Fiscal Stabilization grant received by the State of Ohio under the American Recovery and Reinvestment Act (see D - Restricted Federal Grants-in-Aid) for the Liberty Local School District.

Beginning in fiscal year 2012, the administration of Governor John Kasich has proposed a move away from the Ohio Evidence Based Model to a new funding method. However, since a new funding mechanism is not formulated as of yet, the administration has decided to fund school districts in fiscal year 2012 based on a transitional approach until a new formula is devised. This transitional approach is referred to as the Bridge formula. The Bridge formula divides the fiscal year 2011 OEBM funding by a calculated ADM to determine the per pupil funding. The per pupil funding is then multiplied by the fiscal year 2012 ADM. The adequacy amount is offset by the school district share of the adequacy amount (the charge off amount), which is equal to 21 mills of property taxes for fiscal year 2012. In addition to this adjustment, each school district's fiscal year 2012 funding is further adjusted so that the district receives at least the total funding it received in fiscal year 2011 after subtracting the state fiscal stabilization funds from total funding as well as to provide financial incentives for high performing districts. For fiscal year 2012, the Liberty Local School District estimates \$5,044,000 in adequacy funding which is an increase of \$101,000 based on the allocation allotted by the Ohio Department of Education.

**C. - Restricted Grants-in-Aid**

In past fiscal years, restricted grants-in-aid consisted of career technologies, bus purchase, catastrophic special education monies and a robotics grant. Catastrophic aid is a supplemental payment to the School District for special education students in categories two through five whose educational and related expenses exceed \$27,375 and for special education students in category six whose educational and related expenses exceed \$32,850. For fiscal year 2012, the School District anticipates \$15,000 in restricted grants-in-aid monies for career technologies and catastrophic aid and does not anticipate any bus purchase allowance monies as it is considered part of basic aid.

**D. - Restricted Federal Grants-in-Aid**

In fiscal years 2010 and 2011, restricted federal grants-in-aid consisted of State Fiscal Stabilization Funds and the Education Jobs grant monies. In 2010, Ohio was allocated \$845 million from the American Recovery and Reinvestment Act in State Fiscal Stabilization Funds (SFSF) to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. SFSF for primary and secondary education was distributed to school districts as part of the foundation settlement payments twice a month. These funds had limited restrictions on their use. The School District has chosen to use these funds for teacher salaries. SFSF has not been reauthorized by the Federal government.

In 2010, Congress passed, and the President has signed, legislation that provides \$10 billion in resources to assist local school districts in saving or creating education jobs during fiscal years 2011 and 2012. The Education Jobs grant may be used only for compensation and benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related

**Liberty Local School District**  
 Trumbull County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2012

services. These funds have limited restrictions on their use. The School District has chosen to use these funds in fiscal years 2011 for salaries and benefits for teachers.

**E. - Property Tax Allocation**

State law grants tax relief in the form of a 10 percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The homestead exemption allows eligible homeowners to shield the first \$25,000 in market value from taxation. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs.

In fiscal year 2006, the State began reimbursing the School District for lost revenue due to the phase-out of tangible personal property tax. In the first five years, the School District was fully reimbursed relative to prior law for revenue lost due to the taxable value of reductions. Beginning in fiscal year 2013, the reimbursements are expected to be phased out. The reimbursement is for the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in House Bill 66 are implemented. For fiscal year 2012, the School District anticipates receiving \$275,000 of reimbursement for the tangible personal property tax phase-out.

Property tax allocation revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Actual Fiscal Year 2011	Forecasted Fiscal Year 2012
Homestead and Rollback	\$1,116,000	\$1,119,000	\$1,122,000	\$1,123,000
Tangible Personal Property Loss Reimbursement	438,000	557,000	577,000	275,000
<b>Totals</b>	<b>\$1,554,000</b>	<b>\$1,676,000</b>	<b>\$1,699,000</b>	<b>\$1,398,000</b>

**F. - All Other Revenues**

All other revenues include open enrollment, interest on investments, classroom fees, LEAD and LEARN Academies settlement and other receipts.

The decrease in open enrollment tuition revenue is due to the decrease in the number of students from other school districts attending the School District.

The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being to the general fund. The School District anticipates interest revenue to decrease in fiscal year 2012 due to declining interest rates and low cash balances.

Classroom fees are forecasted to increase due to additional students returning to the School District due to the closure of the LEAD and LEARN Academies.

**Liberty Local School District**  
 Trumbull County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2012

The academy settlement is the first of two payments owed to the School District from the closed LEAD and LEARN Academies. The remaining payment is due in a future fiscal year.

Other revenues consist of services provided to other entities such as charter schools and refund of prior year expenditures. During fiscal year 2010, the School District had a large audit adjustment that was posted as a refund of prior year expenditures. This is not expected to re-occur in the forecast period.

All other revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Actual Fiscal Year 2011	Forecast Fiscal Year 2012
Open Enrollment	\$960,000	\$751,000	\$611,000	\$590,000
Interest on Investments	37,000	9,000	17,000	9,000
Classroom Fees	14,000	11,000	7,000	11,000
Academy Settlement	0	0	0	250,000
Other Receipts	160,000	450,000	171,000	147,000
<b>Totals</b>	<b>\$1,171,000</b>	<b>\$1,221,000</b>	<b>\$806,000</b>	<b>\$1,007,000</b>

**G. - Other Financing Sources**

Proceeds from the Sale of Notes – The School District issued \$563,000 and \$1,776,000 in tax anticipation notes during fiscal years 2009 and 2010, respectively, to cover short-term cash needs. The tax anticipation notes were issued against the emergency levies approved by the voters in fiscal years 2009 and 2010.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses**

**A. - Personal Services**

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors and board members. In addition to regular salaries, it includes payment for supplemental contracts and severance pay. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education. Staffing levels for the last three fiscal years and the forecast period are displayed in the following chart. The amounts represent full time equivalents.



**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

	2009	2010	2011	2012
General Fund:				
Certified	110	109	86	97
Classified	71	47	48	45
Total General Fund	181	156	134	142
Other Funds:				
Certified	9	12	11	13
Classified	24	20	22	25
Total Other Funds	33	32	33	38
Totals	214	188	167	180

Certified (teaching) staff salaries are based on a negotiated contract which includes step increases and educational incentives for existing staff. The contract for certified staff expired on August 31, 2008. The School District is following the contract language and wage scales in the expired contract until another contract is approved. The expired contract salary schedule allows for annual step increases ranging around five percent in fiscal year 2012. The forecasted salaries for fiscal year 2012 include those step increases, but no base salary increases. The \$136,000 increase in certified salaries in fiscal year 2012 is due to the return of the closed LEAD and LEARN academy teachers employed by the School District. The step increases are offset by retiring certified employees being replaced with less experienced teachers at the lower end of the salary schedule.

Classified salaries are based on a negotiated contract which includes step increases. The contract for classified staff expired on August 31, 2008. The School District is following the contract language and wage scales in the expired contract until another contract is approved. The expired contract allows for annual step increases as well as a shift differential for second shift employees. The forecasted salaries for fiscal year 2012 include those step increases, but no base salary increases. The \$36,000 increase in classified salaries in fiscal year 2012 is due to the step increases.

Substitute salaries are expected to increase in fiscal year 2012 by \$61,000. This increase is based upon actual expenditures through August of 2011 as well as a three year historical average.

Supplementary contracts are expected to decrease by \$10,000 during fiscal year 2012. This decrease is due to the elimination of a few extracurricular activities.

Upon retirement, the School District offers its certified and classified employees severance pay of 25 percent of their unused sick leave paid no later than six months after the last date of employment. Severance pay for the current fiscal year includes only those employees who retired at the end of fiscal year 2011 who are being paid during fiscal year 2012. Severance pay is expected to increase during fiscal year 2012 by \$76,000, due to the retirement of several experienced employees with large severance payments.

Vacation opt out includes salaries paid to employees who choose to get paid for unused vacation days instead of taking the days off.

Other salaries and wages include student workers and board compensation for fiscal years 2009 through 2011 and only board compensation for fiscal year 2012.

Presented below is a comparison of the past three fiscal years and the forecast period.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Actual Fiscal Year 2011	Forecast Fiscal Year 2012	Variance
Certified Salaries	\$5,595,000	\$5,221,000	\$4,969,000	\$5,105,000	\$136,000
Classified Salaries	1,368,000	1,279,000	1,427,000	1,463,000	36,000
Substitute Salaries	608,000	510,000	478,000	539,000	61,000
Supplemental Contracts	273,000	271,000	244,000	234,000	(10,000)
Severance Pay	39,000	174,000	128,000	204,000	76,000
Vacation Opt Out	50,000	45,000	38,000	52,000	14,000
Other Salaries and Wages	12,000	17,000	17,000	5,000	(12,000)
Totals	<u>\$7,945,000</u>	<u>\$7,517,000</u>	<u>\$7,301,000</u>	<u>\$7,602,000</u>	<u>\$301,000</u>

**B. - Employees' Retirement/Insurance Benefits**

Employees' retirement and insurance benefits include employer contributions to the State pension systems, health care, medicare, workers' compensation, and other benefits arising from the negotiated agreements.

Retirement costs are based on the employers' contribution rate of 14 percent of salaries for STRS and SERS and an additional SERS surcharge levied to fund health care benefits for employees earning less than a minimum salary amount. Payments to both retirement systems are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimated and actual expenditures are prorated over the next calendar year. The School District pays the employee retirement contributions for five of its classified staff.

The School District was short in the amount it paid to STRS and SERS in fiscal year 2010. As a result, it had an arrearage of \$76,000 and \$16,000 to STRS and SERS, accordingly. This amount is being paid during fiscal year 2012.

In years past, employer contribution to SERS had been paid six months in arrears. SERS required employer contributions to be current and the School District opted to pay the six month arrearage over the next six years, therefore, the School District's retirement contributions include \$25,000 in payment of the arrearage. The outstanding liability at the end of fiscal year 2012 is \$100,000.

Health care costs are based on a number of employees participating in the program and the type of coverage (single or family) provided to each employee. Monthly charges per person for participation in the program are recommended by the third party administrator and approved by the Board of Education. Separate rates are approved for single and family coverage. The health care program includes medical, prescription drug, dental care and vision. The health care rates for fiscal year 2012 are fixed for a twelve month period from April 1, 2011 through March 31, 2012. The monthly rates for single or family health care benefits are anticipated to remain the same over the forecasted period at \$1,684 for family members and \$706 for single members for those covered by Anthem PPO and \$1,732 for family members and \$726 for single members for those covered by Anthem HMO. Health care costs are forecasted to increase based on an increase in the number of employees covered during fiscal year 2012.

Life insurance premiums are based on the coverage amount and the anticipated number of employees participating in the program.

Prescription benefits are provided by Anthem. The monthly charge is \$418.58 for family and \$174.61 for

**Liberty Local School District**  
 Trumbull County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2012

single coverage. Vision benefits are provided by Anthem. The monthly charge is \$26.15 for family and \$10.95 for single coverage. Dental insurance is provided by Anthem. The monthly charge is \$81.97 for family and \$34.36 for single coverage. There has been no change in the cost of these benefits from fiscal year 2011 to fiscal year 2012.

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay the entire premium in May or 45 percent in May and 55 percent in September. The School District anticipates paying the entire premium in May as in prior fiscal years. The premium for calendar year 2011, due in May 2011, decreased from \$1.32 per hundred dollars of payroll to \$1.22 per hundred dollars of payroll. The estimated premium for calendar year 2011, due in May 2012, is expected to decrease by \$20,000 due to the change in premium.

The unemployment benefits are forecast to remain relatively consistent with the prior fiscal year due to the school year having started and no reductions in force having taken place.

The School District offers an opt-out incentive to employees who choose not to participate in the School District's insurance plan.

Presented below is a comparison of the past three fiscal years and the forecast period:

	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Actual Fiscal Year 2011	Forecast Fiscal Year 2012	Variance
Employer's Retirement	\$1,140,000	\$1,229,000	\$995,000	\$1,098,000	\$103,000
Medical, Dental, Vision and Life	2,590,000	2,383,000	2,153,000	2,221,000	68,000
Workers' Compensation	55,000	119,000	105,000	95,000	(10,000)
Medicare	98,000	95,000	94,000	104,000	10,000
Unemployment	3,000	18,000	13,000	11,000	(2,000)
Health Care Opt Out	23,000	16,000	16,000	16,000	0
Totals	<u>\$3,909,000</u>	<u>\$3,860,000</u>	<u>\$3,376,000</u>	<u>\$3,545,000</u>	<u>\$169,000</u>

**C. - Purchased Services**

Presented below are the purchased services expenditures for the past three fiscal years and the forecast period:

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Actual Fiscal Year 2011	Forecast Fiscal Year 2012	Variance
Professional and Technical Services	\$338,000	\$421,000	\$297,000	\$351,000	\$54,000
Property Services	286,000	269,000	187,000	213,000	26,000
Travel and Meeting Expenses	43,000	32,000	25,000	23,000	(2,000)
Communication Cost	50,000	32,000	43,000	40,000	(3,000)
Utility Services	511,000	419,000	360,000	460,000	100,000
Printing Services	12,000	3,000	1,000	1,000	0
Tuition Payments	2,002,000	2,225,000	2,997,000	1,812,000	(1,185,000)
Pupil Transportation	13,000	8,000	1,000	20,000	19,000
Other Purchased Services	8,000	0	0	0	0
Totals	<u>\$3,263,000</u>	<u>\$3,409,000</u>	<u>\$3,911,000</u>	<u>\$2,920,000</u>	<u>(\$991,000)</u>

Professional and technical services in fiscal year 2012 are forecasted to increase mainly due to the School District holding bills in the amounts of \$20,000 for legal services and \$62,000 for service provided by the Trumbull County Educational Service center. These increases have been offset by the elimination of speech services. Property services are forecasted to increase due to the contract for cleaning services offset by the elimination of a School Building Resource Officer. The cost for the School Building Resource Officer in the prior year was shared between the School District and Liberty Township. Utility services are forecasted to increase from held bills from the School District being offset by House Bill 264 energy conservation improvements that will be realized in October once the improvements are finalized. Tuition payments in fiscal year 2012 are forecast to decrease due to the closing of the LEAD and LEARN Academies.

**D. - Supplies and Materials**

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Actual Fiscal Year 2011	Forecast Fiscal Year 2012	Variance
General Supplies, Library Books, Textbooks, and Periodicals	\$217,000	\$122,000	\$62,000	\$145,000	\$83,000
Operations, Maintenance and Repair	118,000	91,000	86,000	86,000	0
Transportation	122,000	106,000	113,000	112,000	(1,000)
Totals	<u>\$457,000</u>	<u>\$319,000</u>	<u>\$261,000</u>	<u>\$343,000</u>	<u>\$82,000</u>

Supplies and materials are forecasted to increase in fiscal year 2012 due to from a combination of prior year obligations for general and instructional supplies and from the School District purchasing textbooks in the current fiscal year.

**E. - Capital Outlay**

The costs of property, plant and equipment acquired or constructed for general services are recorded as expenditures. Capital outlay expenditures are for computers and printers that are needed to replace existing equipment.

**Liberty Local School District**  
 Trumbull County  
 Summary of Significant Assumptions and Accounting Policies  
 For the Fiscal Year Ending June 30, 2012

**F. - Debt**

The outstanding balances and fiscal year 2012 principal payments for general fund supported debt consists of the following:

Type	Maturity Date	Balance at 6/30/2011	Fiscal year 2012	
			Principal Payment	Interest Payment
House Bill 264 Energy Conservation Loan	December 1, 2025	\$2,327,000	\$155,000	\$126,000
2009 Tax Anticipation Notes	December 1, 2014	671,000	168,000	29,000
2010 Tax Anticipation Notes	December 1, 2015	1,776,000	355,000	54,000
Total		\$4,774,000	\$678,000	\$209,000

In fiscal year 2011, the School District received \$2,327,000 in proceeds for the House Bill 264 energy conservation loan which were placed into the building capital projects fund. The work on energy conservation is to be completed in fiscal year 2012.

The principal payments in fiscal year 2011 were for \$355,000 and \$168,000 for tax anticipation notes issued in fiscal years 2005 and 2009, respectively, relating to the emergency levies approved by the voters. The principal payments for fiscal year 2012 will be for \$168,000 and \$355,000 tax anticipation notes issued in fiscal years 2009 and 2010, respectively, issued against the emergency levies approved in those years. Additionally, the School District will also begin paying the mandatory sinking fund requirement for the House Bill 264 energy conservation loan in the amount of \$155,000.

**G. - Other Objects**

Other objects expenditures consist of dues and fees, insurance and awards. Other objects expenditures are forecasted in the amount of \$1,126,000 for fiscal year 2012. This \$49,000 increase is due to an increase in audit fees due to the School District having a two year audit. This increase is offset by a decrease in other fees which was for conferences attended by School District employees and paid for by the School District.

**H. - Operating Transfers and Advances Out**

The general fund is anticipating transfers out in fiscal year 2012 in the amount of \$30,000. The athletic special revenue fund has been subsidized by the general fund and will continue to need support in 2012.

The general fund is anticipating advances out in fiscal year 2012 in the amount of \$80,000. The bond retirement and the employee retirement trust funds each ended the prior fiscal year with deficit balances that the School District feels will not be rectified by the end of the forecast period. This will require temporary funding from the general fund to avoid deficit cash balances. To avoid further deficits in these funds, the School District will be adequately funding these funds throughout the fiscal year instead of making an advance at the end of the fiscal year.

**Note 8 - Encumbrances**

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

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awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance. Encumbrances for purchased services, supplies and materials, capital outlay and other objects as of June 30, 2011 were \$6,000. Encumbrances for fiscal year 2012 are expected to increase due to the School District closing purchase orders at the end of fiscal year 2011. Fiscal year 2012 encumbrances are forecasted to be \$85,000. The School District is making an effort to have minimal encumbrances at fiscal year end.

**Note 9 - Reservations of Fund Balance**

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

**A. - Textbooks and Instructional Materials Set-Aside**

In prior fiscal years, the School District was required to set aside a portion of current year revenue for textbooks and other instructional materials. Effective July 1, 2011, the textbook set aside no longer exists and has been deleted from law. The amount held in reserve at June 30, 2011 is available for use by the general fund for any general fund purpose.

**B. - Capital and Maintenance Set-Aside**

The set aside amount for fiscal year 2012 is forecasted to be \$243,000. The School District anticipates \$129,000 in offsets and \$364,000 in qualifying expenditures during the current fiscal year. Therefore, no reserve amount is forecasted for capital acquisition and improvements.

**C. - Bus Purchase Allowance**

At June 30, 2011, the School District had \$40,000 in unspent bus purchase monies. The School Districts anticipates no bus purchases during fiscal year 2012. As a result, a \$40,000 set-aside is forecast for bus purchase allowance as of June 30, 2012.

**Note 10 - Levies**

In the past ten years, the School District has placed several levies on the ballot. The type of levy, rate, term, and election results of past levy attempts are as follows:

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

Date	Type	Amount	Term	Election Results
November 2001	Emergency Operating	\$741,000	5 Years	Passed
May 2003	Emergency Operating	840,000	5 Years	Passed
March 2004	Permanent Improvement	0.9 mills	5 Years	Passed
March 2004	Emergency Operating	1,792,000	5 Years	Failed
August 2004	Emergency Operating	1,773,000	5 Years	Failed
November 2004	Emergency Operating	1,773,000	5 Years	Failed
May 2005	Emergency Operating (Renewed)	176,000	5 Years	Passed
May 2006	Emergency Operating (Renewed)	741,000	5 Years	Passed
March 2008	Emergency Operating	840,000	5 Years	Passed
November 2008	Permanent Improvement	0.9 mills	5 Years	Passed
May 2009	Emergency Operating	2,391,000	10 years	Failed
November 2009	Emergency Operating	2,391,000	10 years	Failed
May 2010	Emergency Operating (Renewed)	1,776,000	5 Years	Passed
November 2010	Emergency Operating (Renewed)	741,000	5 Years	Passed

**Note 11 - Pending Litigation**

The School District's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

**Note 12 – Liberty Benefits Self-Insurance Fund**

The School District provides medical/surgical, prescription drug, vision and dental benefits through a self-insured program. Anthem Blue Cross/Blue Shield, a third party administrator, processes the claims. All funds make monthly payments to the self-insurance fund based on the number of employees and the type of coverage provided to each employee. Monthly charges per person for single and family participation in the program are recommended by the third party administrator and approved by the Board of Education. The fund purchases annual stop loss coverage for claims in excess of \$50,000 per person and \$1,000,000 for the School District as a whole. The School District anticipates the monthly charges to the various funds will cover the cost of claims and administrative charges and maintain a positive cash fund balance.

**Note 13 - Financial Planning and Supervision Commission**

On July 11, 2011, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Warren County Auditor. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the School District must in accordance with the plan.

**Liberty Local School District**  
Trumbull County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2012

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**Note 14 - Information Related to Periods Beyond the Forecast Period**

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The plan assumes the continued operation of the School District with slight decreases in revenues. The plan also assumes increases in salaries and benefits for fiscal years 2012 through 2015. The operating deficit increases to \$11,198,000 for fiscal year 2015.

The information presented in this note is less reliable than the information presented in the financial forecast, and accordingly, is presented for analysis purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.





# Dave Yost • Auditor of State

LIBERTY LOCAL SCHOOL DISTRICT

TRUMBULL 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  
NOVEMBER 10, 2011