



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Liberty Local School District
Trumbull County
4115 Shady Road
Youngstown, Ohio 44503

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Liberty Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Liberty Local School District, Trumbull County, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Districts, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

May 31, 2002

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS										
ASSETS:										
Equity in pooled cash and cash equivalents	\$782,854	\$173,502	\$296,406	\$498,421	\$150	\$138,702	\$365,096			\$2,255,131
Equity in pooled cash and cash equivalents - nonexpendable trust fund							6,084			6,084
Cash with fiscal agent				5,334						5,334
Investments	21,903									21,903
Receivables (net of allowances of uncollectibles):										
Property taxes - current & delinquent	5,362,336	1,591,654	779,410	152,194						7,885,594
Accounts	8,840									8,840
Materials and supplies inventory	6,420				8,710					15,130
Restricted assets:										
Equity in pooled cash and cash equivalents	29,765									29,765
Property, plant and equipment (net of accumulated depreciation where applicable)					93,523			\$27,988,707		28,082,230
OTHER DEBITS:										
Amount available in Debt Service Fund									\$298,885	298,885
Amount to be provided for retirement of General Long-Term Obligations									11,041,674	11,041,674
Total assets and other debits	<u>\$6,212,118</u>	<u>\$1,765,156</u>	<u>\$1,075,816</u>	<u>\$655,949</u>	<u>\$102,383</u>	<u>\$138,702</u>	<u>\$371,180</u>	<u>\$27,988,707</u>	<u>\$11,340,559</u>	<u>\$49,650,570</u>

The notes to the general purpose financial statements are an integral part of this statement.

--Continued

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
FOR THE YEAR ENDED JUNE 30, 2001

	Governmental Fund Types				Proprietary Fund Types		Fiduciary	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
LIABILITIES, EQUITY AND OTHER CREDITS										
LIABILITIES:										
Accounts payable	\$295,988	\$13,705		\$3,290	\$9,960		\$2,222			\$325,165
Accrued wages and benefits	567,979	147,710			13,903					729,592
Compensated absences payable	43,669				5,124				\$683,210	732,003
Pension obligation payable		152,962		5,334	23,094				72,349	253,739
Deferred revenue	5,345,480	1,586,697	\$776,931	151,698	3,761					7,864,567
Deposits held and due to others							316,038			316,038
Due to students							44,087			44,087
Claims payable						\$156,975				156,975
General obligation bonds payable									10,585,000	10,585,000
Total liabilities	<u>6,253,116</u>	<u>1,901,074</u>	<u>776,931</u>	<u>160,322</u>	<u>55,842</u>	<u>156,975</u>	<u>362,347</u>		<u>11,340,559</u>	<u>21,007,166</u>
EQUITY AND OTHER CREDITS:										
Investment in general fixed assets								\$27,988,707		27,988,707
Accumulated deficit						(18,273)				(18,273)
Retained earnings: unreserved					46,541					46,541
Fund balances:										
Reserved for encumbrances	15,705	12,901		228,336			447			257,389
Reserved for supplies inventory	6,420									6,420
Reserved for debt service			296,406							296,406
Reserved for tax revenue unavailable for appropriation	16,856	4,957	2,479	496						24,788
Reserved for principal endowment							6,084			6,084
Reserved for instructional materials	29,765									29,765
Unreserved-undesignated	(109,744)	(153,776)		266,795			2,302			5,577
Total equity and other credits	<u>(40,998)</u>	<u>(135,918)</u>	<u>298,885</u>	<u>495,627</u>	<u>46,541</u>	<u>(18,273)</u>	<u>8,833</u>	<u>27,988,707</u>		<u>28,643,404</u>
Total liabilities, equity and other credits	<u>\$6,212,118</u>	<u>\$1,765,156</u>	<u>\$1,075,816</u>	<u>\$655,949</u>	<u>\$102,383</u>	<u>\$138,702</u>	<u>\$371,180</u>	<u>\$27,988,707</u>	<u>\$11,340,559</u>	<u>\$49,650,570</u>

The notes to the general purpose financial statements are an integral part of this statement.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

**COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (DEFICIT)
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expensible Trust	
Revenues:						
From local sources:						
Taxes	\$4,809,905	\$1,405,108	\$729,741	\$136,488		\$7,081,242
Tuition	3,502					3,502
Earnings on investments	148,315			19,591		167,906
Other local revenues	154,547	257,296		1,200	\$1,950	414,993
Other revenue	10,957	7,782				18,739
Intergovernmental - State	4,874,527	156,188		25,500		5,056,215
Intergovernmental - Federal		380,858				380,858
Total revenue	<u>10,001,753</u>	<u>2,207,232</u>	<u>729,741</u>	<u>182,779</u>	<u>1,950</u>	<u>13,123,455</u>
Expenditures:						
Current:						
Instruction:						
Regular	4,190,951	898,985		90,172	2,322	5,182,430
Special	1,396,745	406,533				1,803,278
Vocational	61,093					61,093
Other		1,793				1,793
Support services:						
Pupil	313,370	100,167				413,537
Instructional staff	207,125	131,957				339,082
Board of Education	13,746	42				13,788
Administration	891,473	247,200				1,138,673
Fiscal	308,826	69,688		10,005		388,519
Business	2,556					2,556
Operations and maintenance	1,277,602	134,205	11,962	38,363		1,462,132
Pupil transportation	863,148	90,860				954,008
Central	32,937	15,122		52,724		100,783
Community services	17,574	19,521		7,031		44,126
Extracurricular activities	210,180	187,581		4,031		401,792
Facilities services				140,413		140,413
Debt service:						
Principal retirement			320,000			320,000
Interest and fiscal charges			474,135			474,135
Total expenditures	<u>9,787,326</u>	<u>2,303,654</u>	<u>806,097</u>	<u>342,739</u>	<u>2,322</u>	<u>13,242,138</u>
Excess (deficiency) of revenues over (under) expenditures	214,427	(96,422)	(76,356)	(159,960)	(372)	(118,683)
Other financing sources (uses):						
Operating transfers in		27,576				27,576
Operating transfers out	(37,521)	(15)				(37,536)
Sale/loss of assets				63,380		63,380
Total other financing sources (uses)	<u>(37,521)</u>	<u>27,561</u>		<u>63,380</u>		<u>53,420</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	176,906	(68,861)	(76,356)	(96,580)	(372)	(65,263)
Fund balance (Deficit), July 1	(219,593)	(67,057)	375,241	592,207	3,121	683,919
Increase in reserve for inventory	1,689					1,689
Fund balance (Deficit), June 30	<u>(\$40,998)</u>	<u>(\$135,918)</u>	<u>\$298,885</u>	<u>\$495,627</u>	<u>\$2,749</u>	<u>\$620,345</u>

The notes to the general purpose financial statements are an integral part of this statement.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	General			Special Revenue			Debt Service			Capital Projects			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:															
From local sources:															
Taxes	\$5,281,286	\$4,820,875	(\$460,411)	\$1,549,368	\$1,407,927	(\$141,441)	\$724,998	\$731,763	\$6,765	\$149,726	\$136,810	(\$12,916)	\$7,705,378	\$7,097,375	(\$608,003)
Earnings on investments	110,512	142,198	31,686								19,591	19,591	110,512	161,789	51,277
Other local revenues	29,836	38,391	8,555	137,865	257,296	119,431					1,200	1,200	167,701	296,887	129,186
Other revenues	6,405	8,241	1,836	4,170	7,782	3,612							10,575	16,023	5,448
Intergovernmental - State	3,788,318	4,874,527	1,086,209	84,149	157,046	72,897					25,500	25,500	3,872,467	5,057,073	1,184,606
Intergovernmental - Federal				201,205	375,508	174,303							201,205	375,508	174,303
Total revenues	9,216,357	9,884,232	667,875	1,976,757	2,205,559	228,802	724,998	731,763	6,765	149,726	183,101	33,375	12,067,838	13,004,655	936,817
Expenditures:															
Current:															
Instruction:															
Regular	3,847,702	4,272,207	(424,505)	1,211,598	803,544	408,054				56,688	101,980	(45,292)	5,115,988	5,177,731	(61,743)
Special	1,618,284	1,381,602	236,682	467,140	420,548	46,592							2,085,424	1,802,150	283,274
Vocational	72,800	55,741	17,059										72,800	55,741	17,059
Other				600	482	118							600	482	118
Support services:															
Pupil	292,450	319,931	(27,481)	126,299	99,495	26,804							418,749	419,426	(677)
Instructional staff	158,056	209,431	(51,375)	158,450	128,608	29,842							316,506	338,039	(21,533)
Board of Education	15,715	14,490	1,225	40	42	(2)							15,755	14,532	1,223
Administration	878,971	914,283	(35,312)	347,401	258,205	89,196							1,226,372	1,172,488	53,884
Fiscal	313,574	307,241	6,333	157,733	59,860	97,873				60,200	10,005	50,195	531,507	377,106	154,401
Business	8,057	2,622	5,435										8,057	2,622	5,435
Operations and maintenance	1,014,542	1,257,191	(242,649)	167,145	131,336	35,809	12,000	11,962	38	39,173	37,668	1,505	1,232,860	1,438,157	(205,297)
Pupil transportation	815,962	897,992	(82,030)	115,496	89,856	25,640							931,458	987,848	(56,390)
Central	30,214	34,255	(4,041)	10,729	11,874	(1,145)				54,487	75,232	(20,745)	95,430	121,361	(25,931)
Community services	25,840	18,846	6,994	21,368	19,053	2,315				7,031	7,031		54,239	44,930	9,309
Extracurricular activities	196,060	210,090	(14,030)	209,290	188,748	20,542				4,691	4,031	660	410,041	402,869	7,172
Facilities services										142,166	403,389	(261,223)	142,166	403,389	(261,223)
Debt service:															
Principal retirement							320,000	320,000					320,000	320,000	
Interest and fiscal charges							474,135	474,135					474,135	474,135	
Total expenditures	9,288,227	9,895,922	(607,695)	2,993,289	2,211,651	781,638	806,135	806,097	38	364,436	639,336	(274,900)	13,452,087	13,553,006	(100,919)
Excess (deficiency) of revenues over (under) expenditures	(71,870)	(11,690)	60,180	(1,016,532)	(6,092)	1,010,440	(81,137)	(74,334)	6,803	(214,710)	(456,235)	(241,525)	(1,384,249)	(548,351)	835,898
Other financing sources (uses):															
Refund of prior year's expenditures	95,198	122,494	27,296										95,198	122,494	27,296
Operating transfers in				14,776	27,576	12,800							14,776	27,576	12,800
Operating transfers (out)	(10,000)	(37,521)	(27,521)	(1,921)	(1,326)	595							(11,921)	(38,847)	(26,926)
Sale/loss of fixed assets											63,380	63,380	63,380	63,380	
Total other financing sources (uses)	85,198	84,973	(225)	12,855	26,250	13,395					63,380	63,380	98,053	174,603	76,550
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	13,328	73,283	59,955	(1,003,677)	20,158	1,023,835	(81,137)	(74,334)	6,803	(214,710)	(392,855)	(178,145)	(1,286,196)	(373,748)	912,448
Fund balances, July 1	420,031	420,031		120,718	120,718		370,740	370,740		528,798	528,798		1,440,287	1,440,287	
Prior year encumbrances appropriated	102,271	102,271		6,988	6,988					136,186	136,186		245,445	245,445	
Fund balances, June 30	\$535,630	\$595,585	\$59,955	(\$875,971)	\$147,864	\$1,023,835	\$289,603	\$296,406	\$6,803	\$450,274	\$272,129	(\$178,145)	\$399,536	\$1,311,984	\$912,448

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS (ACCUMULATED DEFICIT)/FUND BALANCE
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
Operating revenues:				
Sales/charges for services	\$265,467	\$1,374,882		\$1,640,349
Investment earnings			\$518	518
Total operating revenues	265,467	1,374,882	518	1,640,867
Operating expenses:				
Personal services	187,959			187,959
Contract services		123,803		123,803
Materials and supplies	222,780		459	223,239
Depreciation	1,134			1,134
Other	24,482			24,482
Claims expense		1,175,437		1,175,437
Total operating expenses	436,355	1,299,240	459	1,736,054
Operating income (loss)	(170,888)	75,642	59	(95,187)
Nonoperating revenues:				
Operating grants	135,528			135,528
Federal commodities	34,920			34,920
Interest revenue	136	3,143		3,279
Total nonoperating revenues	170,584	3,143		173,727
Net income before operating transfers	(304)	78,785	59	78,540
Operating transfers in	9,960			9,960
Net income	9,656	78,785	59	88,500
Retained earnings (accumulated deficit)/ fund balance, July 1	36,885	(97,058)	6,025	(54,148)
Retained earnings(accumulated deficit)/ fund balance, June 30	<u>\$46,541</u>	<u>(\$18,273)</u>	<u>\$6,084</u>	<u>\$34,352</u>

The notes to the general purpose financial statements are an integral part of this statement.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Cash flows from operating activities:				
Cash received from sales/service charges	\$265,467	\$1,374,882		\$1,640,349
Cash payments for personal services	(194,954)			(194,954)
Cash payments for contract services	(14,085)	(123,803)		(137,888)
Cash payments supplies and materials	(187,530)		(\$459)	(187,989)
Cash payments for claims expense		(1,169,174)		(1,169,174)
Cash payments for other expenses	(14,522)			(14,522)
Net cash provided by (used in) operating activities.	(145,624)	81,905	(459)	(64,178)
Cash flows from noncapital financing activities:				
Cash received from operating grants.	135,528			135,528
Cash received from transfers in	9,960			
Net cash provided by noncapital financing activities.	145,488			145,488
Cash flows from investing activities:				
Interest received	136	3,143	518	3,797
Net cash provided by investing activities.	136	3,143	518	3,797
Net increase in cash and cash equivalents		85,048	59	85,107
Cash and cash equivalents at beginning of year.	150	53,654	6,025	59,829
Cash and cash equivalents at end of year	<u>\$150</u>	<u>\$138,702</u>	<u>\$6,084</u>	<u>\$144,936</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss).	(\$170,888)	\$75,642	\$59	(\$95,187)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,134			1,134
Federal donated commodities	34,920			34,920
Interest reported as operating income			(518)	(518)
Changes in assets and liabilities:				
Increase in supplies inventory	(789)			(789)
Decrease in accounts payable	(4,125)			(4,125)
Decrease in accrued wages & benefits.	(8,435)			(8,435)
Increase in compensated absences payable	1,759			1,759
Increase in claims payable		6,263		6,263
Decrease in pension obligation payable	(319)			(319)
Increase in deferred revenue	1,119			1,119
Net cash provided by (used in) operating activities	<u>(\$145,624)</u>	<u>\$81,905</u>	<u>(\$459)</u>	<u>(\$64,178)</u>

The notes to the general purpose financial statements are an integral part of this statement.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

1. DESCRIPTION OF THE SCHOOL DISTRICT

The District is located in Northeast Ohio, in Trumbull County, in the greater metropolitan Youngstown area.

The District is organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms.

The District is the 307th largest by enrollment among the 682 public and community school districts in the State. It currently operates one elementary school and one comprehensive middle/high school. The District is staffed by 69 non-certified and 126 certificated personnel to provide services to approximately 1,844 students and other community members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements (GPFS) of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The District's reporting entity has been defined in accordance with GASB Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

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 for the organization. The financial statements of the reporting entity include only those of the District (the primary government). The District has no component units. The following organizations are described due to their relationship to the District.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Jointly Governed Organization

North East Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among twenty-eight school districts and two educational service centers. The organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions among member districts. Each of the districts supports NEOMIN based upon a per pupil charge.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board, which consists of ten members; the Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a principal and a treasurer (non-voting members who must be employed by a participating school district, or fiscal agent of NEOMIN). The degree of control exercised by any participating school district is limited to its representation on the Governing Board. Financial information for NEOMIN is available from the Trumbull County Educational Service Center (fiscal agent) at 347 North Park Avenue, Warren, Ohio 44481.

The District also participates in a Group Rating Plan (GRP) for worker's compensation insurance, discussed in Note 10.

B. Fund Accounting

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: Governmental, Proprietary and Fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in Proprietary Funds) are accounted for through Governmental Funds. The following are the District's Governmental Fund Types:

General Fund - The General fund is the general 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 balance is available to the District for any purpose, provided it is expended or transferred in accordance with applicable Ohio statute.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

PROPRIETARY FUNDS

Proprietary Funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's Proprietary Fund Types:

Enterprise Funds - Enterprise Funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Expendable Trust, Nonexpendable Trust and Agency Funds. Expendable Trust Funds are accounted for in essentially the same manner as Governmental funds. Nonexpendable Trust funds are accounted for in essentially the same manner as Proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, or have measurement focus.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the Proprietary Funds and Nonexpendable Trust fund.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District except those accounted for in the Proprietary Funds and Nonexpendable Trust fund.

C. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental funds and the Expendable Trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All Proprietary funds and the Nonexpendable Trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary Fund Type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for Governmental and Expendable Trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2001, but which are intended to finance fiscal 2002 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as advances on future tax settlements are recognized as revenue at year-end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the 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 modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred, with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in Governmental funds.

The Proprietary and Nonexpendable Trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense, with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements, and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The Proprietary funds receive no revenue from property taxes.

D. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2001 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Trumbull County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2001.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the budgetary statements present comparisons at the fund and function level of expenditures as elected by the District Treasurer. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than Agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource, and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board; however, none of the amendments were significant.
9. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For Governmental Fund Types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 14 provides a reconciliation of the budgetary and GAAP basis of accounting.

E. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. Monies for all funds, including Proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" (both unrestricted and restricted) on the combined balance sheet.

During fiscal 2001, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, and common stock.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2001.

Calculation of the Net Increase in the Fair Value of Investments - Aggregate Method

	General Fund
Fair value at June 30, 2001	\$ 21,903
Add: Proceeds of investments sold and matured fiscal 2001	0
Less: Purchase of investments in fiscal 2001	0
Less: Fair value at June 30, 2000	<u>(15,786)</u>
Increase in fair value of investments	<u>\$ 6,117</u>

Under existing Ohio statutes all investment earnings are assigned to the General fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General fund during fiscal 2001 amounted to \$148,315, which included \$93,980 assigned from other District funds. Interest revenue credited to the Endowment fund during fiscal 2001 amounted to \$518, which included \$25 assigned from other District funds. Interest revenue credited to the Food Service fund during fiscal 2001 amounted to \$136, all of which was assigned from other funds.

An analysis of the Treasurer's investment account at year end is provided in Note 4.

F. Inventory

Inventories for all Governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period-end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of Proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Fixed Assets and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than five years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, nor is interest on debt issued to construct or acquire general fixed assets. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District has not included infrastructure in the General Fixed Asset Account Group.

2. Proprietary Funds

Equipment reflected in these funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

<u>Asset</u>	<u>Life (years)</u>
Furniture/equipment	5 - 20

H. Intergovernmental Revenues

In Governmental funds, intergovernmental revenues such as entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

Grants for Proprietary fund operations (excluding commodities) are recognized as non-operating revenues in the accounting period in which they are measurable and earned. The District currently participates in various state and federal programs categorized as follows:

<u>Entitlements</u>	<u>Non-Reimbursable Grants</u>
<p style="margin-left: 20px;"><u>General Fund</u></p> <p style="margin-left: 40px;">State Foundation Program</p> <p style="margin-left: 40px;">State Property Tax Relief</p> <p style="margin-left: 20px;"><u>Special Revenue Funds</u></p> <p style="margin-left: 40px;">Disadvantaged Pupil Impact Aid</p> <p style="margin-left: 40px;">State Property Tax Relief</p> <p style="margin-left: 20px;"><u>Debt Service Fund</u></p> <p style="margin-left: 40px;">State Property Tax Relief</p>	<p style="margin-left: 20px;"><u>Special Revenue Funds</u></p> <p style="margin-left: 40px;">Ohio Reads</p> <p style="margin-left: 40px;">Teacher Development</p> <p style="margin-left: 40px;">Education Management</p> <p style="margin-left: 80px;">Information System</p> <p style="margin-left: 40px;">Partnership 2000</p> <p style="margin-left: 40px;">SchoolNet Professional Development</p> <p style="margin-left: 40px;">Title VI</p> <p style="margin-left: 40px;">Title I</p> <p style="margin-left: 40px;">Title VI-B</p>

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

<u>Capital Projects Funds</u>	<u>Capital Projects Funds</u>
State Property Tax Relief	SchoolNet
	Technology Equity
<u>Reimbursable Grants</u>	
<u>General Fund</u>	
Driver Education Reimbursement	
<u>Enterprise Funds</u>	
National School Lunch Program	
Government Donated Commodities	

Grants and entitlements amounted to over 37% of the District's operating revenue during the 2001 fiscal year.

I. **Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten (10) years of service, regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and severance of Governmental Fund Type employees meeting the above requirements have been recorded in the appropriate Governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long Term Obligations Account Group. Vacation and sick leave for employees meeting the above requirements who are paid from Proprietary funds is recorded as an expense when earned.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Long-Term Obligations

In general, Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from Governmental funds are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are generally considered not to have been paid with current available financial resources. Bonds, capital leases, and long-term loans are reported as a liability of the General Long-Term Obligations Account Group until due.

Long-term debt and other obligations financed by Proprietary funds are reported as liabilities in the appropriate Proprietary funds.

K. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, debt service, tax advance unavailable for appropriation, and instructional materials. In addition, although the Nonexpendable Trust fund uses the total economic resources measurement focus, fund equity is reserved for the amount of the principal endowment. The reserve for property taxes represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute. The unreserved portions of fund equity reflected for the Governmental funds are available for use within the specific purposes of those funds.

L. Statutory Reserves

The District is required by State law to set-aside certain (cash-basis) General fund revenue amounts, as defined by statute, into various reserves. During the fiscal year ended June 30, 2001, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of July 1, 2000	\$ 29,521	\$ 0	\$ 189,644
Current year set-aside requirement	236,265	236,265	
Change in statutory requirement			(189,644)
Qualifying disbursements	<u>(236,021)</u>	<u>(279,219)</u>	<u> </u>
Total, June 30, 2001	<u>29,765</u>	<u>(42,954)</u>	<u>0</u>
Cash balance carried forward to FY 2002	<u>\$ 29,765</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A schedule of the restricted assets at June 30, 2001 follows:

Amount restricted for instructional materials	<u>\$29,765</u>
Total restricted assets	<u>\$29,765</u>

M. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of Agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Board of Education Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the District's interfund transactions for fiscal year 2001 is presented in Note 5.

N. Restricted Assets

Restricted assets in the General fund represent cash and cash equivalents set aside to establish a reserve for instructional materials. This reserve is required by State statute and can be used only after receiving approval from the State Superintendent of Public Instruction and/or for statutorily-specified purposes. A fund balance reserve has also been established. See Note 2.L. for the statutory reserve.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Statement of Cash Flows

In September 1989, GASB issued Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. The District has presented a statement of cash flows for its Proprietary and Nonexpendable Trust funds. For purposes of the statement of cash flows, the District considers cash equivalents to include all short term investments (maturity of 90 days or less from date of purchase).

P. Financial Reporting for Proprietary and Similar Fund Types

The District's financial statements have been prepared in accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. This Statement is effective for financial statements beginning after December 15, 1993. The District accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Q. Estimates

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

R. Memorandum Only - Total Columns

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, was implemented during fiscal 2001. In accordance with this statements, certain types of revenue received by the District for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions may have been reported in a manner inconsistent with prior fiscal years; however, the adoption of this statement had no effect on fund balances/retained earnings as previously reported by the District at June 30, 2000.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

3. ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances/Retained Earnings

Fund balance/retained earnings at June 30, 2001 included the following individual fund deficits:

	<u>Deficit Balance</u>
General Fund	\$ (40,998)
<u>Special Revenue Funds</u>	
Emergency Levy	(255,372)
Education Management Information Systems	(43)
Title VI-B (5,764)	
Miscellaneous Federal Grants	(5,563)
<u>Internal Service Fund</u>	
Employee Benefits Self-Insurance	(18,273)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year end.

These deficits, caused by the application of generally accepted accounting principles, will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The General fund provides transfers for deficit balances; however, transfers are made when cash is needed rather than when accruals occur.

C. Statutory Noncompliance

Section 5705.39, prohibits the total appropriations for each fund from exceeding the total certified as available by the County Budget Commission. The district had appropriations that exceeded the total certified as available by the County Budget Commission in the Special Revenue, Enterprise, and Internal Service Fund Types.

Section 5705.41 (B) prohibits a subdivision from making an expenditure unless it has been appropriated. The District had expenditures in excess of appropriations in the General and Capital Projects Fund Types.

4. EQUITY IN POOLED CASH AND INVESTMENTS

State statutes require the classification of monies held by the District into three categories:

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be 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.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

4. EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

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

Interim monies may be invested or deposited 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 or 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 market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt investments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

4. EQUITY IN POOLED CASH 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 on Hand: At year end, the District had \$240 in undeposited cash on hand which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents", but is not included in the total amount of deposits reported below.

Cash with Escrow Agent: At year end, \$5,334 was on deposit with the District's escrow agent for contract retainage and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents".

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

Deposits: At year-end the carrying amount of the District's deposits was \$(142,391) and the bank balance was \$12,716. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. The entire bank balance was covered by federal deposit insurance.

Investments: Investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. STAR Ohio is an unclassified investment because it is not evidenced by securities that exist in physical or book entry form.

	Category of Risk 3	Fair Value
Repurchase Agreement	\$300,877	\$ 300,877
Common Stock *	21,903	21,903
Not Subject to Categorization: Investment in State Treasurer's Investment Pool	_____	2,137,588
Total Investments	\$322,780	\$2,460,368

* Common stock is not an allowable investment under current Ohio statute; however, this stock was bequeathed to the District. No public funds were used to acquire it.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

4. EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Equity in Pooled Cash and Cash Equivalents</u>	<u>Investments</u>
Per GASB Statement No. 9	\$ 2,290,980	\$ 21,903
Investments of the Cash Management Pool:		
Repurchase Agreement	(300,877)	300,877
Investment in STAR Ohio	(2,137,588)	2,137,588
Cash on Hand (240)		
Cash with Escrow Agent	<u>5,334</u>	<u> </u>
GASB Statement No. 3	<u>\$ (142,391)</u>	<u>\$2,460,368</u>

5. INTERFUND TRANSACTIONS

The following is a reconciliation of the District's operating transfers during fiscal year 2001:

	<u>Transfers In</u>	<u>Transfers (Out)</u>
General Fund		\$(37,521)
<u>Special Revenue Funds</u>		
Auxiliary Services	\$27,576	(15)
<u>Enterprise Funds</u>		
Food Service	<u>9,960</u>	<u> </u>
Total Transfers	<u>\$37,536</u>	<u>\$(37,536)</u>

6. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

6. PROPERTY TAXES - (Continued)

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value, except for the personal property of rural electric companies, which is assessed 50% of market value, and railroads, which are assessed at 29% of market value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The first \$10,000 of assessed value is exempt from taxation. The District receives a state subsidy in lieu of tax revenue which would otherwise have been collected.

The assessed values upon which the fiscal year 2001 taxes are collected are as follows:

	2000 Second-Half Collections		2001 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$194,055,080	88.46	\$194,772,420	88.97
Public Utility Personal	11,363,510	5.18	10,941,530	5.00
Tangible Personal Property	<u>13,953,932</u>	<u>6.36</u>	<u>13,203,547</u>	<u>6.03</u>
Total	<u>\$219,372,522</u>	<u>100.00</u>	<u>\$218,917,497</u>	<u>100.00</u>

Tax rate per \$1,000 of
assessed valuation:

Operations	\$34.60	\$34.60
Permanent Improvements	.90	.90
Debt Service	3.96	3.60
Special Purpose	7.19	7.35

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.

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

The Trumbull County Treasurer collects property taxes on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable as of June 30, 2001. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

6. PROPERTY TAXES - (Continued)

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2001, are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end. Available tax advances at June 30, 2001 totaled \$16,856 in the General fund; \$2,479 in the Debt Service fund; \$496 in the Permanent Improvements fund; and \$4,957 in the Emergency Levy Special Revenue fund.

7. RECEIVABLES

Receivables at June 30, 2001 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements (intended to finance the current fiscal year). 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 fiscal year guarantee of federal funds.

A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Taxes - Current & Delinquent	\$5,362,336
 <u>Special Revenue Funds</u>	
Taxes - Current & Delinquent	1,591,654
 <u>Debt Service Fund</u>	
Taxes - Current & Delinquent	779,410
 <u>Capital Projects Funds</u>	
Taxes - Current & Delinquent	152,194

8. FIXED ASSETS

A summary of the changes in the General Fixed Assets Account Group during the fiscal year follows:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2001</u>
Land/improvements	\$ 1,044,379			\$ 1,044,379
Buildings/improvements	20,290,663			20,290,663
Furniture/equipment	5,824,949	\$115,777		5,940,726
Vehicles	712,939			712,939
 Total	 <u>\$27,872,930</u>	 <u>\$115,777</u>	 <u>\$ 0</u>	 <u>\$27,988,707</u>

A summary of the Proprietary fixed assets at June 30, 2001 follows:

Furniture and equipment	\$ 213,726
Less: accumulated depreciation	<u>(120,203)</u>
Net fixed assets	<u>\$ 93,523</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

9. LONG-TERM OBLIGATIONS

The current general obligation bonds outstanding, which were issued in fiscal 1998 to provide funds for the construction of a new high school, are general obligations of the District, for which the full faith and credit of the District are pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the General Long-Term Debt Obligations Group. Payments of principal and interest relating to these bonds are recorded as expenditures in the Debt Service fund. The source of payment is derived from a current 3.60 mill bonded debt tax levy.

A. The following is a description of the District's bonds outstanding as of June 30, 2001:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance 07/01/00</u>	<u>Retired in Fiscal 2001</u>	<u>Balance 06/30/01</u>
Building Construction	5.23%	11/20/97	12/01/20	\$11,200,000	\$10,905,000	\$(320,000)	\$10,585,000
				<u>\$11,200,000</u>	<u>\$10,905,000</u>	<u>\$(320,000)</u>	<u>\$10,585,000</u>

B. The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds:

<u>Year Ending June 30</u>	<u>Principal on General Obligation Bonds</u>	<u>Interest on General Obligation Bonds</u>	<u>Total</u>
2002	\$ 330,000	\$ 460,482	\$ 790,482
2003	360,000	445,730	805,730
2004	395,000	429,300	824,300
2005	425,000	411,047	836,047
2006	455,000	391,020	846,020
2007 - 2011	1,811,991	2,634,897	4,446,888
2012 - 2016	2,473,009	2,251,416	4,724,425
2017 - 2021	<u>4,335,000</u>	<u>588,129</u>	<u>4,923,129</u>
Total	<u>\$10,585,000</u>	<u>\$7,612,021</u>	<u>\$18,197,021</u>

C. During the year ended June 30, 2001, the following changes occurred in the liabilities reported in the General Long-Term Obligations Account Group. Compensated absences are presented net of actual increases and decreases because of the practicality of determining these amounts. Compensated absences and the pension obligation will be paid from the fund in which the employee was paid.

	<u>Balance July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2001</u>
Compensated absences	\$ 556,781	\$126,429		\$ 683,210
Pension obligation payable	74,447	72,349	\$(74,447)	72,349
General obligation bonds payable	<u>10,905,000</u>		<u>(320,000)</u>	<u>10,585,000</u>
Total	<u>\$11,536,228</u>	<u>\$198,778</u>	<u>\$(394,447)</u>	<u>\$11,340,559</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

9. LONG-TERM OBLIGATIONS - (Continued)

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The effects of these debt limitations at June 30, 2001 are a voted debt margin of \$9,416,460 (including available funds of \$298,885) and an unvoted debt margin of \$218,917.

10. RISK MANAGEMENT

A. Comprehensive

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. The District maintains comprehensive commercial insurance coverage for real property, building contents, vehicles, and general liability.

General liability insurance is maintained in the amount of \$2,000,000 for each occurrence and \$5,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss.

The District maintains replacement cost insurance on buildings and contents in the amount of \$31,420,401.

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. There has been no significant reductions in amounts of insurance coverage from fiscal 2000.

B. Health Self Insurance

The District has elected to provide employee medical/surgical benefits through a self-insured program. The District maintains a self-insurance Internal Service fund to account for and finance its uninsured risk of loss in this program. A third-party administrator, Professional Benefits Administrators, Inc. located in Akron, Ohio, reviews and pays all claims. The District pays into the self-insurance Internal Service fund a premium that is paid by the fund that pays the salary for the employee and is based on historical cost information.

The claims liability of \$156,975 reported in the fund at June 30, 2001 is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims cost, including estimated of cost relating to incurred but not reported claims, be reported. Changes in the fund's claims liability for fiscal 2001 are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2001	\$150,712	\$1,175,437	\$1,169,174	\$156,975
2000	215,168	638,023	702,479	150,712

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

10. RISK MANAGEMENT - (Continued)

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

C. Worker's Compensation

OSBA WORKER'S COMPENSATION GROUP RATING

For fiscal year 2001, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. 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 GRP. 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 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 of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

11. SEGMENT INFORMATION - ENTERPRISE FUNDS

Although the District maintains two Enterprise funds to account for the operations of food service and uniform school supplies, there was no activity in the uniform school supplies fund in fiscal 2001. Segment information is therefore not presented. Of the total retained earnings presented on the combined balance sheet for Enterprise funds, \$150 was for the uniform school supplies fund. There were no encumbrances outstanding in the Enterprise funds at June 30, 2001.

12. DEFINED BENEFIT PENSION PLANS

A. 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 basic retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

12. DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate, which was 14 percent for 2001; 4.2 percent was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$271,304, \$206,006, and \$286,564, respectively; 59 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$111,768, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. 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 for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$853,547, \$609,080, and \$725,256, respectively; 86 percent has been contributed for fiscal year 2001 and 100 percent for the fiscal years 2000 and 1999. \$122,412, representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

C. 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, 2001, all members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

13. POSTEMPLOYMENT BENEFITS

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

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

13. POSTEMPLOYMENT BENEFITS - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$274,354 during fiscal 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000 net health care costs paid by STRS were \$283.137 million and there were 99,011 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase from 8.45 percent for fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000 SERS had net assets available for payment of health care benefits of \$252.3 million and there were approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$203,438 during the 2001 fiscal year.

14. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance is done on a GAAP basis, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

14. BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for Governmental funds (GAAP basis); and,
- (d) Intrafund transfers have been presented as other financing sources (uses) on a (budget basis). Intrafund transfers have been eliminated for (GAAP basis) reporting purposes.

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the Governmental funds are as follows:

**Excess (Deficiency) of Revenues and Other Financing
Sources Over/(Under) Expenditures and Other
Financing Uses**

	Governmental Fund Types			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$ 73,283	\$ 20,158	\$(74,334)	\$(392,855)
Net adjustment for revenue accruals	117,521	1,673	(2,022)	(322)
Net adjustment for expenditure accruals	(108,438)	(117,641)		64,971
Net adjustment for other financing sources (uses)	(122,494)	1,311		
Encumbrances (budget basis)	<u>217,034</u>	<u>25,638</u>	<u> </u>	<u>231,626</u>
GAAP basis	<u>\$ 176,906</u>	<u>\$ (68,861)</u>	<u>\$(76,356)</u>	<u>\$ (96,580)</u>

15. CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2001.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001**

15. CONTINGENCIES -(Continued)

B. Litigation

The District is a party to legal proceedings. The District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006. On November 5, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of May 31, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

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

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LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	-	10.550		\$36,040		\$34,920
National School Lunch Program	03-PU-00	10.555	28,146		28,146	
	03-PU-01		74,125		74,125	
	04-PU-00		7,127		7,127	
	04-PU-01		18,571		18,571	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>127,969</u>	<u>36,040</u>	<u>127,969</u>	<u>34,920</u>
INSTITUTE OF MUSEUM - LIBRARY SERVICES						
<i>Passed Through State Library of Ohio</i>						
LSTA Minigrant	-	45.310	11,759		3,595	
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-00	84.010	34,168		57,915	
	C1-S1-01		<u>180,555</u>		<u>149,015</u>	
Total Grants to Local Educaiton Agencies			214,723		206,930	
Special Education Grants to State	6B-SF-00	84.027			776	
	6B-SF-01		<u>78,560</u>		<u>78,560</u>	
Total Special Education Grants to State			78,560		79,336	
Title VI Innovative Education Program	C2-S1-99C	84.151			854	
	C2-S1-00C		6,751		1,598	
	C2-S1-01		<u>3,003</u>		<u>219</u>	
Total Innovative Education Program			9,754		2,671	
Drug Free Schools	DR-S1-01	84.186	7,782		7,782	
Eisenhower Professional Development	MS-S1-01	84.281	8,916		8,771	
Class Size Reduction Program	CR-S1-99	84.340	7,899		12,009	
	CR-S1-00		<u>43,896</u>		<u>43,896</u>	
Total Class Size Reduction Program			51,795		55,905	
Total Department of Education			<u>371,530</u>		<u>361,395</u>	
Totals			<u>\$511,258</u>	<u>\$36,040</u>	<u>\$492,959</u>	<u>\$34,920</u>

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

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30,2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the District had no significant food commodities in inventory.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Board of Education
Liberty Local School District
Trumbull County
4115 Shady Road
Youngstown, Ohio 44503

We have audited the financial statements of Liberty Local School District as of and for the year ended December 31, 2001, and have issued our report thereon dated May 31, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Liberty Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings as items 2001-11178-001 and 2001-11178-002. We also noted certain immaterial instances of noncompliance that we have reported to management of Liberty Local School District in a separate letter dated May 31, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Liberty Local School District in a separate letter dated May 31, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

May 31, 2002



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

Board of Education
Liberty Local School District
Trumbull County
4115 Shady Road
Youngstown, Ohio 44503

Compliance

We have audited the compliance of Liberty Local School District, Trumbull County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

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

Liberty Local School District
Trumbull County
Report on Compliance with Requirements Applicable to
Each Major Federal Program and Internal Control over
Compliance in Accordance with OMB Circular A-133
Page 2

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

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

May 31, 2002

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

FOR THE YEAR ENDED JUNE 30, 2001

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

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

Finding # 2001-11178-001

Ohio Revised Code Section 5705.39, states that the total appropriations from each fund should not exceed the total estimated revenue. The following fund types appropriations exceeded the amount certified as available by the County Budget Commission for fiscal year 2001:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Special Revenue	\$2,112,250	\$2,995,210	(\$882,960)
Enterprise	380,150	526,964	(146,814)
Internal Service	1,313,667	1,475,353	(161,686)

The failure to limit appropriations to the estimated revenue by the Board of Education could result in actual expenditures exceeding the available revenue which could result in deficit spending.

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

**FOR THE YEAR ENDED JUNE 30, 2001
(Continued)**

We recommend that the School Board implement policies and procedures to ensure the appropriations do not exceed the amount certified as available by the County Budget Commission.

Finding # 2001-11178-002

Section 5705.41(B), Ohio Revised Code, prohibits a subdivision from making an expenditure unless it has been properly appropriated.

For fiscal year 2001, the following fund types were found to have expenditures exceeding appropriations:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
General	\$9,298,226	\$9,933,441	(\$635,215)
Capital Projects	\$ 228,248	\$ 639,334	(\$274,901)

The failure to limit spending to only those amounts approved by the Board of Education could allow expenditures to exceed available resources and create deficit fund balances. Total Estimated Resources were sufficient to allow the District to request supplemental appropriations in the funds listed above. The treasurer should monitor the budget to ensure that all expenditures and encumbrances have been appropriated.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



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OFFICE OF THE AUDITOR

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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
JULY 2, 2002**