



**Auditor of State  
Betty Montgomery**



**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Liberty Center Local School District  
Henry County  
103 W. Young Street, P.O. Box 434  
Liberty Center, Ohio 43532-0434

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Liberty Center Local School District (the District) as of and for the year ended June 30, 2003, 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 Center Local School District, Henry County, as of June 30, 2003, and the results of its operations and cash flows of its enterprise 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 December 10, 2003 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.

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

**Betty Montgomery**  
Auditor of State

December 10, 2003

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**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
AS OF JUNE 30, 2003**

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<b>ASSETS AND OTHER DEBITS</b>			
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,047,217	\$47,896	\$177,250
Receivables:			
Taxes	3,336,558		308,263
Accounts	8,413	939	
Intergovernmental	24,691	5,809	
Accrued Interest	13,505		
Notes Receivable			
Income Tax	335,679		
Materials and Supplies Inventory	10,046		
Prepaid Items	24,893		
Fixed Assets			
Accumulated Depreciation			
<b>Other Debits:</b>			
Amount Available in Debt Service Fund for Retirement of Long-Term Obligations			
Amount to be Provided From General Government Resources			
<b>Total Assets and Other Debits</b>	<b>\$5,801,002</b>	<b>\$54,644</b>	<b>\$485,513</b>



<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Totals (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>Enterprise</u>	<u>Trust and Agency</u>			
\$74,119	\$24,002			\$2,370,484
				3,644,821
				9,352
				30,500
				13,505
	1,000			1,000
				335,679
18,123				28,169
				24,893
173,212 (116,316)		\$15,879,128		16,052,340 (116,316)
			\$177,250	177,250
			3,405,018	3,405,018
<u>\$149,138</u>	<u>\$25,002</u>	<u>\$15,879,128</u>	<u>\$3,582,268</u>	<u>\$25,976,695</u>

(Continued)

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
AS OF JUNE 30, 2003  
(Continued)**

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>			
<b>Liabilities:</b>			
Accounts Payable	\$1,342	\$725	
Contracts Payable	57,378		
Accrued Wages and Benefits	777,762	7,455	
Compensated Absences Payable	76,179		
Intergovernmental Payable	105,201	1,039	
Deferred Revenue	3,145,809	570	\$281,034
Due to Students			
General Obligation Bonds Payable			
Total Liabilities	4,163,671	9,789	281,034
<b>Fund Equity and Other Credits:</b>			
Investment in General Fixed Assets			
Contributed Capital			
Retained Earnings:			
Unreserved			
Fund Balances:			
Reserved for Encumbrances	49,825	8,288	
Reserved for Inventory	10,046		
Reserved for Prepaid Items	24,893		
Reserved for Debt Service Principal			177,250
Reserved for Notes Receivable			
Reserved for Property Taxes	189,669		27,229
Unreserved, Undesignated	1,362,898	36,567	
Total Fund Equity and Other Credits	1,637,331	44,855	204,479
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$5,801,002</b>	<b>\$54,644</b>	<b>\$485,513</b>

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

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
				\$2,067
				57,378
\$26,983				812,200
22,660			\$406,317	505,156
16,448			50,951	173,639
				3,427,413
	\$22,016			22,016
			3,125,000	3,125,000
66,091	22,016		3,582,268	8,124,869
		\$15,879,128		15,879,128
128,591				128,591
(45,544)				(45,544)
				58,113
				10,046
				24,893
				177,250
	1,000			1,000
	1,986			216,898
				1,401,451
83,047	2,986	15,879,128		17,851,826
<b>\$149,138</b>	<b>\$25,002</b>	<b>\$15,879,128</b>	<b>\$3,582,268</b>	<b>\$25,976,695</b>

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<b>Revenues:</b>			
Intergovernmental	\$4,824,293	\$261,237	\$28,858
Interest	76,055	482	
Tuition and Fees	358,010	605	
Rent	1,225		
Extracurricular Activities		147,010	
Gifts and Donations	58,309	18,149	
Income Tax	834,110		
Property and Other Local Taxes	2,230,135		270,243
Miscellaneous	3,152	21,131	
Total Revenues	<u>8,385,289</u>	<u>448,614</u>	<u>299,101</u>
<b>Expenditures:</b>			
Instruction:			
Regular	3,846,637	71,613	
Special	707,538	97,082	
Vocational	187,465		
Other	222,152		
Support services:			
Pupils	446,360	59,056	
Instructional Staff	312,844	29,381	
Board of Education	28,977		
Administration	708,812	21,764	
Fiscal	227,194		6,605
Operation and Maintenance of Plant	787,117		
Pupil Transportation	536,795		
Central	347,467	19,542	
Non-Instructional Services		11,427	
Extracurricular activities	214,700	179,139	
Capital Outlay	487,239		
Debt Service:			
Principal			115,000
Interest			193,093
Total Expenditures	<u>9,061,297</u>	<u>489,004</u>	<u>314,698</u>
Excess of Revenues Over (Under) Expenditures	<u>(676,008)</u>	<u>(40,390)</u>	<u>(15,597)</u>
<b>Other Financing Sources and Uses</b>			
Operating Transfers In		10,000	
Proceeds from Sale of Fixed Assets	701		
Refund of Prior Year Expenditures	5,223		
Other Financing Sources		816	
Operating Transfers Out	(11,276)		
Refund of Prior Year Receipts	(25)	(2,301)	
Total Other Financing Sources (Uses)	<u>(5,377)</u>	<u>8,515</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(681,385)</u>	<u>(31,875)</u>	<u>(15,597)</u>
Fund Balance at Beginning of Year	<u>2,318,716</u>	<u>76,730</u>	<u>220,076</u>
<b>Fund Balance at End of Year</b>	<u><b>\$1,637,331</b></u>	<u><b>\$44,855</b></u>	<u><b>\$204,479</b></u>

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

<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Expendable Trust</u>	
	\$5,114,388
\$11	76,548
	358,615
	1,225
	147,010
	76,458
	834,110
	2,500,378
140	24,423
<u>151</u>	<u>9,133,155</u>
	3,918,250
	804,620
	187,465
	222,152
	505,416
	342,225
	28,977
	730,576
	233,799
	787,117
	536,795
	367,009
3,186	14,613
516	394,355
	487,239
	115,000
	193,093
<u>3,702</u>	<u>9,868,701</u>
<u>(3,551)</u>	<u>(735,546)</u>
	10,000
	701
	5,223
	816
	(11,276)
	(2,326)
	<u>3,138</u>
(3,551)	(732,408)
6,537	2,622,059
<u><b>\$2,986</b></u>	<u><b>\$1,889,651</b></u>

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2003**

	General		Variance: Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues:</b>			
Intergovernmental	\$4,759,626	\$4,802,396	\$42,770
Interest	75,000	74,717	(283)
Tuition and Fees	293,550	351,014	57,464
Rent	3,000	1,225	(1,775)
Extracurricular Activities			
Gifts and Donations	50,000	58,309	8,309
Income Tax	904,000	856,400	(47,600)
Property and Other Local Taxes	2,220,044	2,219,066	(978)
Miscellaneous	20,000	1,832	(18,168)
Total Revenues	<u>8,325,220</u>	<u>8,364,959</u>	<u>39,739</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	3,822,369	3,786,087	36,282
Special	711,365	695,202	16,163
Vocational	191,095	186,170	4,925
Other	223,656	222,608	1,048
Support services:			
Pupils	446,779	442,755	4,024
Instructional Staff	316,542	312,840	3,702
Board of Education	45,164	41,171	3,993
Administration	698,131	690,936	7,195
Fiscal	230,375	226,568	3,807
Operation and Maintenance of Plant	821,034	783,922	37,112
Pupil Transportation	566,139	548,485	17,654
Central	354,970	346,495	8,475
Non-Instructional Services			
Extracurricular activities	217,364	214,316	3,048
Capital Outlay	526,368	525,148	1,220
Debt Service:			
Principal			
Interest			
Total Expenditures	<u>9,171,351</u>	<u>9,022,703</u>	<u>148,648</u>
Excess of Revenues Over (Under) Expenditures	<u>(846,131)</u>	<u>(657,744)</u>	<u>188,387</u>
<b>Other Financing Sources and Uses</b>			
Operating Transfers In			
Proceeds from Sale of Fixed Assets	500	701	201
Refund of Prior Year Expenditures	650	5,223	4,573
Other Financing Sources			
Operating Transfers Out	(13,000)	(11,276)	1,724
Refund of Prior Year Receipts	(25)	(25)	
Total Other Financing Sources (Uses)	<u>(11,875)</u>	<u>(5,377)</u>	<u>6,498</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(858,006)</u>	<u>(663,121)</u>	<u>194,885</u>
Fund Balances at Beginning of Year	2,560,735	2,560,735	
Prior Year Encumbrances Appropriated	42,400	42,400	
<b>Fund Balance at End of Year</b>	<u><u>\$1,745,129</u></u>	<u><u>\$1,940,014</u></u>	<u><u>\$194,885</u></u>

Special Revenue			Debt Service		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$275,042	\$269,233	(\$5,809)	\$25,771	\$28,858	\$3,087
2,845	482	(2,363)			
900	605	(295)			
188,885	147,194	(41,691)			
19,200	18,149	(1,051)			
			256,884	266,759	9,875
59,008	21,131	(37,877)			
545,880	456,794	(89,086)	282,655	295,617	12,962
81,218	74,473	6,745			
108,295	108,295				
61,303	61,133	170			
31,705	28,556	3,149			
23,841	22,219	1,622			
			7,500	6,605	895
30,748	19,542	11,206			
50,000	11,427	38,573			
225,813	185,891	39,922			
			115,000	115,000	
			193,093	193,093	
612,923	511,536	101,387	315,593	314,698	895
(67,043)	(54,742)	12,301	(32,938)	(19,081)	13,857
16,000	10,000	(6,000)			
816	816				
(2,301)	(2,301)				
14,515	8,515	(6,000)			
(52,528)	(46,227)	6,301	(32,938)	(19,081)	13,857
82,066	82,066		196,331	196,331	
3,044	3,044				
<b>\$32,582</b>	<b>\$38,883</b>	<b>\$6,301</b>	<b>\$163,393</b>	<b>\$177,250</b>	<b>\$13,857</b>

(Continued)

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

	Expendable Trust		Variance: Favorable (Unfavorable)
	Budget	Actual	
<b>Revenues:</b>			
Intergovernmental			
Interest	\$50	\$11	(\$39)
Tuition and Fees			
Rent			
Extracurricular Activities			
Gifts and Donations	550		(550)
Income Tax			
Property and Other Local Taxes			
Miscellaneous	450	140	(310)
Total Revenues	1,050	151	(899)
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular			
Special			
Vocational			
Other			
Support services:			
Pupils			
Instructional Staff			
Board of Education			
Administration			
Fiscal			
Operation and Maintenance of Plant			
Pupil Transportation			
Central			
Non-Instructional Services	4,186	3,186	1,000
Extracurricular activities	580	516	64
Capital Outlay			
Debt Service:			
Principal			
Interest			
Total Expenditures	4,766	3,702	1,064
Excess of Revenues Over (Under) Expenditures	(3,716)	(3,551)	165
<b>Other Financing Sources and Uses</b>			
Operating Transfers In			
Proceeds from Sale of Fixed Assets			
Refund of Prior Year Expenditures			
Other Financing Sources			
Operating Transfers Out			
Refund of Prior Year Receipts			
Total Other Financing Sources (Uses)			
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(3,716)	(3,551)	165
Fund Balances at Beginning of Year	5,537	5,537	
Prior Year Encumbrances Appropriated			
<b>Fund Balance at End of Year</b>	<b>\$1,821</b>	<b>\$1,986</b>	<b>\$165</b>

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



**Totals (Memorandum Only)**

<b>Budget</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>
\$5,060,439	\$5,100,487	\$40,048
77,895	75,210	(2,685)
294,450	351,619	57,169
3,000	1,225	(1,775)
188,885	147,194	(41,691)
69,750	76,458	6,708
904,000	856,400	(47,600)
2,476,928	2,485,825	8,897
79,458	23,103	(56,355)
<u>9,154,805</u>	<u>9,117,521</u>	<u>(37,284)</u>
3,903,587	3,860,560	43,027
819,660	803,497	16,163
191,095	186,170	4,925
223,656	222,608	1,048
508,082	503,888	4,194
348,247	341,396	6,851
45,164	41,171	3,993
721,972	713,155	8,817
237,875	233,173	4,702
821,034	783,922	37,112
566,139	548,485	17,654
385,718	366,037	19,681
54,186	14,613	39,573
443,757	400,723	43,034
526,368	525,148	1,220
115,000	115,000	
193,093	193,093	
<u>10,104,633</u>	<u>9,852,639</u>	<u>251,994</u>
<u>(949,828)</u>	<u>(735,118)</u>	<u>214,710</u>
16,000	10,000	(6,000)
500	701	201
650	5,223	4,573
816	816	
(13,000)	(11,276)	1,724
<u>(2,326)</u>	<u>(2,326)</u>	
<u>2,640</u>	<u>3,138</u>	<u>498</u>
(947,188)	(731,980)	215,208
2,844,669	2,844,669	
45,444	45,444	
<u><b>\$1,942,925</b></u>	<u><b>\$2,158,133</b></u>	<u><b>\$215,208</b></u>

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND EQUITY  
ALL ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003**

	<b>Enterprise</b>
<b>Operating Revenues:</b>	
Sales	\$255,889
Other Revenues	862
Refund of Prior Year Expense	20
Total Operating Revenues	256,771
<b>Operating Expenses</b>	
Salaries	132,071
Fringe Benefits	59,127
Purchased Services	18,762
Materials and Supplies	188,064
Depreciation	12,066
Total Operating Expenses	410,090
Operating Loss	(153,319)
<b>Non-Operating Revenues</b>	
Federal Donated Commodities	36,511
Interest	549
Federal and State Subsidies	92,369
Total Non-Operating Revenues	129,429
Loss Before Operating Transfers	(23,890)
Operating Transfers-In	1,276
Net Income (Loss)	(22,614)
Retained Earnings at Beginning of Year	(22,930)
Retained Earnings at End of Year	(45,544)
Contributed Capital at Beginning of Year	128,591
Contributed Capital at End of Year	128,591
<b>Total Fund Equity at End of Year</b>	<b>\$83,047</b>

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

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**COMBINED STATEMENT OF CASH FLOWS  
ALL ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003**

	<b>Enterprise</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
Cash Flows from Operating Activities:	
Cash Received from Sales	\$255,889
Other Cash Receipts	882
Cash Payments to Suppliers for Goods and Service	(163,812)
Cash Payments for Contract Services	(18,762)
Cash Payments for Employee Services	(126,200)
Cash Payments for Employee Benefits	(54,568)
Net Cash Used by Operating Activities	(106,571)
Cash Flows from Noncapital Financing Activities:	
Operating Grants Received	92,369
Transfers In	1,276
Net Cash Provided Noncapital Financing Activities	93,645
Cash Flows from Investing Activities:	
Interest Received	549
Net Decrease in Cash and Cash Equivalents	(12,377)
Cash and Cash Equivalents at Beginning of Year	86,496
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$74,119</b>
 <b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</b>	
Operating Loss	(\$153,319)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	12,066
Donated Commodities Used During the Year	36,511
Adjustments to Capital Outlay	(925)
(Increase) Decrease in Assets:	
Material and Supplies Inventory	(4,395)
Increase (Decrease) in Liabilities:	
Compensated Absences Payable	4,322
Intergovernmental Payable	4,021
Deferred Revenue	(6,939)
Accrued Wages and Benefits	2,387
Accounts Payable	(300)
Total Adjustments	46,748
<b>Net Cash Used by Operating Activities</b>	<b>(\$106,571)</b>

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

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**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Liberty Center Local School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Liberty Center Local School District is a local school district as defined by § 3311.03 of Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The board oversees the operations of the District's instructional/support facilities.

**The Reporting Entity**

The District has implemented the Government Accounting Standards Board (GASB) pronouncements concerning the definition of the reporting entity. Accordingly, the District's balance sheet includes all funds, account groups, agencies, boards, commissions, and component units over which the District officials exercise oversight responsibility.

Oversight responsibility includes such aspects as appointment of governing body members, budget review, approval of property tax levies, outstanding debt secured by District full faith and credit or revenues, and responsibility for funding deficits. On this basis, there were no organizations subject to the District's oversight responsibility, which required incorporation into the financial statements.

The School District is associated with organizations, which are defined as jointly governed organizations, a related organization and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Liberty Center Public Library, the Northern Buckeye Education Council's Employee Insurance Benefit Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 12, 13, and 14 to the general-purpose financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

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

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into retained earnings components. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

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The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. The full accrual basis of accounting is followed by the proprietary funds. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements.

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, includes property taxes, income taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements included timing requirements, which specify the year when the revenue resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are deemed both measurable and available: taxpayer-assessed income taxes, interest, tuition, grants, and student fees.

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

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**B. Fund Accounting**

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

GOVERNMENTAL FUNDS - The funds through which most Board of Education functions are typically financed.

General Fund - The fund used to account for all financial resources except those required to be segregated and accounted for in other funds. The General Fund is the general operating fund of the District.

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

Debt Service Funds - The funds used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to the governmental accounting principles, the Debt Service Fund accounts for the payment of long-term debt for Governmental Funds only. Under Ohio law, the Debt Service Fund might also be used to account for the payment of debt for Proprietary Funds and the short-term debt of both Governmental and Proprietary Funds.

PROPRIETARY FUNDS - The funds used to account for Board activities that are similar to business operations in the private sector. Proprietary Funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund measurement focus is upon determination of net income, financial position and cash flows.

Enterprise Funds - The funds used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

FIDUCIARY FUNDS - The funds used to account for assets not owned by the Board, but held for a separate entity.

Trust Funds - The funds used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable Trust Funds.

Agency Funds - The funds used to account for assets held by the District as an agent. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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ACCOUNT GROUPS

General Fixed Assets - Fixed assets acquired or constructed for general governmental services are recorded as expenditures in the fund making the expenditures and capitalized at cost in the General Fixed Assets Account Group.

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

**C. Budgetary Accounting**

Budgets are adopted on a cash basis.

The District is required by State statute to adopt an annual appropriation budget for all funds. The Title VI-B Flow Thru Grant and Federal Preschool Grant special revenue funds pass through grants in which the Northwest Ohio Educational Service Center is the primary recipient. Budgetary information for these funds is included within the District's reporting entity for which the "appropriated budget" is adopted, and the District does not maintain separate budgetary records.

The specific timetable is as follows:

1. Prior to January 15, the Treasurer submits 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. A public hearing is publicized and conducted to obtain taxpayers' comments. The 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 County Budget Commission for 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. The annual appropriation measure (the true operating budget) is then developed at the fund, function and object level of expenditures, which are the legal levels of budgetary control.
4. A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for a period July 1 to June 30. The appropriation measure may be amended or supplemented during the year, as new information becomes available. Appropriations may not exceed estimated resources.
5. The District maintains budgetary control by not permitting expenditures to exceed appropriations within each fund, function and object without approval of the Board of Education. The Board permits management to make discretionary budgetary adjustments within each fund, which are approved by the Board on a monthly



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basis. Any adjustments that alter the total fund appropriation require specific action of the Board.

6. 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.

The District's budget (budget basis) for all funds accounts for certain transactions on a basis, which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
2. Expenditures and expenses are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is incurred for GAAP purposes.

An analysis of the difference between GAAP and budgetary basis for all governmental fund types and expendable trust fund for the year ended June 30, 2003 follows:

	Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses			
	General	Special Revenue	Debt Service	Expendable Trust
Budget Basis	(\$663,121)	(\$46,227)	(\$19,081)	(\$3,551)
Revenue Accruals	20,330	(8,179)	3,484	
Expenditure Accruals	(145,797)	13,518		
Other Financing Sources (Uses)				
Reserve for Encumbrances	107,203	9,013		
GAAP Basis	(\$681,385)	(\$31,875)	(\$15,597)	(\$3,551)

**D. Encumbrances**

The District is required to use the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**E. Cash and Investments**

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

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During the fiscal year 2003, investments were limited to STAR Ohio, a government sweep account, an FNMA security, and certificates of deposit.

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 and nonnegotiable certificates of deposit are reported at cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. 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's share price, which is the price of the investment, could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has by resolution specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$76,055; interest in the amount of \$1,042 was credited to other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**F. Inventory**

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consist of expendable supplies held for consumption. The cost has been recorded as an expenditure at the time individual inventory items were purchased. Reported inventories in these funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expended when used.

**G. Property, Plant and Equipment**

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. Contributed 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 \$250. This is based primarily on the uniqueness of these items to a school operation. No depreciation is recognized for asset in General Fixed Assets Account Group.

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Public Domain ("infrastructure") general fixed assets consisting of curbs, gutters, sidewalks, drainage and lighting systems are not capitalized, as these assets are immovable and of value only to the government. The District does not have any infrastructure.

**PROPRIETARY FUNDS**

Property plant and equipment reflected in the Proprietary Funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Contributed fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided for furniture, fixtures, and equipment on a straight-line basis over an estimated useful life of seven to twenty years.

**H. 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 through which resources are to be expended are recorded 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 are reflected as interfund receivables and interfund payables.

**I. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This information is not comparable to a consolidation. Interfund-type eliminations have not been made in the combining of the data.

**J. Compensated Absences**

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences". In conformity with GASB Statement No. 16, the School District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

For governmental funds, the District provides a liability for unpaid accumulated sick leave and vacation time for eligible employees in the period the employees become eligible to receive

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payment. The current portion of unpaid compensated absences is the amount to be paid using expendable available resources and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the General Long-Term Obligations Account Group. In proprietary funds, compensated absences are expensed when earned. The entire amount of unpaid compensated absences is reported as a fund liability.

**K. Long-term Obligations**

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For the other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Obligation Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

**L. Fund Balance Reserves**

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories of supplies and materials, prepaid items, debt service principal, property taxes, and notes receivable.

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

**M. Estimates**

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

**3. EQUITY IN POOLED CASH AND INVESTMENTS**

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five-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.

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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 or deposit accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures or any other 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 issuance 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. Bond 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio);

Investments in stripped principal or interest obligations, reverse purchase 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 School 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, 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 School District had \$200 in undeposited cash on hand which is included on the balance sheet of the School District as part of "equity in pooled cash and cash equivalents". The following information classifies deposits and investments by categories of risk as

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defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

**Deposits:** At the year-end, the carrying amount of the District's deposits was \$2,119,060 and the bank balance was \$2,268,047. Of the bank balance:

1. \$250,015 was covered by Federal Depository Insurance; and
2. \$2,018,032 was secured by pooled collateral that was held in the pledging financial institution's name. All State statutory requirements for the depositing of money had been followed.

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

	Category 2	Fair Value
FNMA Security	\$250,234	\$250,234
State Treasurer's Investment Pool		990
Total Investments	\$250,234	\$251,224

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$2,370,484	
Cash on Hand	(200)	
Investments of the Cash Management Pool:		
FNMA Security	(250,234)	\$250,234
State Treasurer's Investment Pool	(990)	990
GASB Statement No. 3	\$2,119,060	\$251,224

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**4. PROPERTY TAXES**

Property taxes include amounts levied against real, public utility, and tangible property located within the District. All property is required to be reappraised every six years with a triennial update.

Real property taxes, excluding public utility property, are assessed at 35 percent of appraised market value. Pertinent real property tax dates are:

Collection Dates	January and July of the current year
Lien Date	January 1 of the year preceding the collection year
Levy Date	April 1 of the year preceding the collection year

Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value.

The taxes are based on assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Pertinent tangible personal property tax dates are:

Collection Dates	April and September of the current year
Lien Date	January 1 of the current year
Levy Date	April 1 of the year preceding the collection year

Most public utility tangible personal property currently is assessed at 35 percent of its true value. Pertinent public utility tangible personal property tax dates are:

Collection Dates	January and July of the current year
Lien Date	December 31 of the second year preceding the collection year
Levy Date	April 1 of the year preceding the collection year

The County Treasurers collect real estate property taxes on behalf of all taxing districts within the Counties of the District. The County Auditors periodically remit to the District its portion of the taxes collected with final settlement in March and September.

The County Treasurers collect personal property taxes on behalf of all taxing districts within the Counties of the District. The County Auditors periodically remit to the District its portion of the taxes collected with final settlement in May and October.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes, which are measurable at June 30, 2003. These taxes are intended to finance the next fiscal year's operations, and are therefore offset by a credit to deferred revenue, except for the portion, which is available to advance as of June 30, 2003.

The assessed values of properties upon which property tax revenues were based are as follows:

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	Amount
Commercial/Industrial	\$4,710,990
Residential/Agricultural	73,122,160
Public Utilities	8,614,170
General Personal Property	8,619,870
Total Valuation	\$95,067,190

**5. FIXED ASSETS**

A summary of changes in the General Fixed Assets Account Group is as follows:

Asset Category	Balance at 06/30/02	Additions	Disposals	Balance at 06/30/03
Land and Land Improvements	\$1,090,998	\$341,422		\$1,432,420
Buildings	10,096,750	67,076		10,163,826
Furniture, Fixtures and Equipment	2,620,370	209,299	\$205,765	2,623,904
Motor Vehicles	846,679	147,588	39,242	955,025
Text and Library Books	663,330	40,623		703,953
Totals	\$15,318,127	\$806,008	\$245,007	\$15,879,128

A summary of Enterprise Fund fixed assets at June 30, 2003 follows:

Asset Category	Balance at 06/30/03
Furniture and Equipment	\$173,212
Less: Accumulated Depreciation	(116,316)
Totals	\$56,896

**6. LONG-TERM OBLIGATIONS**

During the year ended June 30, 2003, the following changes occurred in obligations reported in the General Long-Term Obligations Account Group:

	Balance at 06/30/02	Additions	Deductions	Balance at 06/30/03
General obligation bonds	\$3,240,000		\$115,000	\$3,125,000
SERS and SERS surcharge	47,255	\$3,696		50,951
Employee benefit obligations	386,033	20,284		406,317
Total Long-Term Obligations	\$3,673,288	\$23,980	\$115,000	\$3,582,268



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Debt outstanding at June 2003 consisted of General Obligation Bonds totaling \$3,125,000. The bonds were issued in March 1994 and will mature in December 2018. The interest rate at June 30, 2003 was 4.5 percent to 6.15 percent for the general obligation bonds.

Total expenditures for interest for the above debt for the period ended June 30, 2003 was \$193,093.

The scheduled payments of principal and interest on debt outstanding at June 30, 2003 are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2004	\$120,000	\$187,627	\$307,627
2005	125,000	180,964	305,964
2006	135,000	172,969	307,969
2007	140,000	164,513	304,513
2008	150,000	155,595	305,595
2009-2013	910,000	622,072	1,532,072
2014-2018	1,245,000	292,894	1,537,894
2019	300,000	9,225	309,225
Total	<u>\$3,125,000</u>	<u>\$1,785,859</u>	<u>\$4,910,859</u>

**7. COMPENSATED ABSENCES**

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 20 Days. Employees with less than one year of service earn no vacation. Certain employees are permitted to carry over vacation leave if approved by the Superintendent.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 50 days for classified non-union employees and 53 days for certified and classified union employees.

At June 30, 2003 the current amount of unpaid compensated absences in all funds, except for the general fund, and the balance of the liability in the General Long-Term Obligation Account Group were \$76,179 and \$406,317, respectively. The liability for compensated absences in the proprietary funds at June 30, 2003 was \$22,660.

**8. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio

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(Continued)**

provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$ 539,005, \$ 374,642 and \$ 352,176 respectively; 85 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$84,324 representing the unpaid contribution for fiscal year 2003 is recorded as a liability within the respective funds.

**B. School Employees Retirement System**

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
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beneficiaries. Authority to establish and amend benefits is provided 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$94,939, \$61,968 and \$52,266 respectively; 57 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$69,324 representing the unpaid contribution for fiscal year 2003 is recorded as a liability within the respective funds and the general long-term obligations account group.

**9. POSTEMPLOYMENT BENEFITS**

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2003, the board allocated employer contributions equal to 4.5 percent of covered payroll to Health Care Stabilization Fund. Effective July 1, 2002, 1 percent of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2002. For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, 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

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
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their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2002, the allocation rate is 8.54 percent. 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 2002, the minimum pay has been established as \$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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits were \$335.2 million.

The number of participants currently receiving health care benefits is approximately 50,000.

The portion of your employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .61, then adding the surcharge due as of June 30, 2002, as certified to your district by SERS.

**10. RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are fully insured.

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

**B. Employee Insurance Benefits Program**

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

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premiums for the participants. 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 Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**11. ENTERPRISE FUNDS SEGMENT INFORMATION**

The District maintains two Enterprise Funds, which provide lunchroom/cafeteria and uniform school supply services. Segment information for the year ended June 30, 2003 was as follows:

	Lunchroom/ Cafeteria	Uniform School Supplies	Total Enterprise Funds
Operating revenues	\$250,603	\$6,168	\$256,771
Depreciation	12,066		12,066
Operating income (loss)	(150,235)	(3,084)	(153,319)
Donated commodities	36,511		36,511
Interest	549		549
Grants	92,369		92,369
Operating transfers in		1,276	1,276
Net income (loss)	(20,806)	(1,808)	(22,614)
Net working capital	24,085	2,066	26,151
Total assets	147,072	2,066	149,138
Total liabilities	66,091		66,091
Total equity	80,981	2,066	83,047

**12. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total fees paid by the District to NWOCA during this fiscal year were \$53,004. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
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(Continued)**

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,000. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**C. Four County Career Center**

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

**13. RELATED ORGANIZATION**

**Liberty Center Public Library**

The Liberty Center Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Liberty Center Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial

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function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Liberty Center Public Library, Connie Busch, Clerk/Treasurer, at 111 East Street, Liberty Center, Ohio 43532.

**14. GROUP PURCHASING POOLS**

**A. NBEC Employee Insurance Benefits Program**

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$689,787. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. NBEC Workers' Compensation Group Rating Plan**

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$831 to the WCGRP to cover the costs of administering the program.

**15. SCHOOL DISTRICT INCOME TAX**

In 1995, the voters of the Liberty Center Local School District passed a 1 percent school income tax on wages earned by residents of the District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ending June 30, 2003, the District recorded income tax revenue of \$834,110 in the General Fund, of which \$335,679 is recorded as a receivable at June 30, 2003.

**16. SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**17. INTERFUND TRANSACTIONS**

Transfers between funds during the year ended June 30, 2003, were as follows:

	Transfers In	Transfers Out
General Fund		\$11,276
Special Revenue Funds	\$10,000	
Enterprise Funds	1,276	
Total	\$11,276	\$11,276

**18. SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

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

	Textbooks	Capital Acquisition
Set-Aside Balance as of June 30, 2002	(\$83,746)	
Current Year Set-aside Requirement	156,511	\$156,511
Current Year Offsets		
Qualifying Disbursements	(222,284)	(418,247)
Total	(\$149,519)	(\$261,736)
Set-Aside Balance Carried Forward to FY 2004	(\$149,519)	

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero. These extra amounts for textbooks and instructional materials may be used to reduce the set-aside requirements of future years. Negative amount for capital acquisition is not presented as being carried forward to the next fiscal year.

**19. SUBSEQUENT EVENTS**

On September 1, 2003, the District issued General Obligation School Improvement Refunding Bonds in the amount of \$3,124,998. The issue included \$2,985,000 in current interest bonds and \$139,998 in capital appreciation bonds. The current interest bonds will mature December 1, 2017, and the capital appreciation bonds will mature December 1, 2012. These proceeds will be used to retire the \$3,125,000 bonds outstanding at June 30, 2003.



**LIBERTY CENTER LOCAL SCHOOL DISTRICT  
HENRY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**20. CONTRACTUAL COMMITMENTS**

At June 30, 2003, the District had a contractual commitment relating to the purchase of two new school buses from Cardinal Bus Sales for \$108,880 in Fiscal Year 2004.

At June 30, 2003, the District had a contractual commitment relating to the high school and elementary school buildings re-roofing project with J.V.C. Company for \$86,190. No payment had been made on this contract as of June 30, 2003.

At June 30, 2003, the District had contractual commitments relating to the construction of and electrical work for a storage facility at the Spring Sports Complex with Leupp Building Services for \$64,316 and Stollsteimer Electric for \$10,026. No payments had been made on these contracts as of June 30, 2003.

At June 30, 2003, the District had a contractual commitment relating to the construction of the track and event areas at the Spring Sports Complex with Diversified Road and Pipe for a remaining amount of \$8,175. \$292,284 of the total project cost was paid in Fiscal Year 2003.





**Auditor of State  
Betty Montgomery**

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

Liberty Center Local School District  
Henry County  
103 W. Young Street, P.O. Box 434  
Liberty Center, Ohio 43532-0434

To the Board of Education:

We have audited the financial statements of the Liberty Center Local School District as of and for the year ended June 30, 2003, and have issued our report thereon dated December 10, 2003. 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 the 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**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.

Liberty Center Local School District  
Henry County  
Independent Accountants' Report on Compliance and on Internal  
Control Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 10, 2003



**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**LIBERTY CENTER LOCAL SCHOOL DISTRICT**

**HENRY 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  
JANUARY 6, 2004**