



**Auditor of State
Betty Montgomery**

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Liberty Local School District
Trumbull County
4115 Shady Road
Youngstown, Ohio 44405

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Local School District, Trumbull County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty Local School District, Trumbull County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Emergency Levy Fund thereof 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 September 16, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

September 16, 2005

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Liberty Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$897,116 which represents a 29.82% decrease from 2003.
- General revenues accounted for \$13,216,539 in revenue or 80.35% of all revenues. Program specific revenues, in the form of charges for services and sales, grants and contributions accounted for \$3,232,254 or 19.65% of total revenues of \$16,448,793.
- The District had \$17,345,909 in expenses related to governmental activities; only \$3,232,254 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$13,216,539 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, emergency levy fund and debt service fund. The general fund had \$11,889,249 in revenues and other financing sources and \$12,831,104 in expenditures. During fiscal 2004, the general fund's fund deficit, increased \$940,205 from \$497,180 to \$1,437,385.
- The emergency levy fund had \$1,585,645 in revenues and \$1,532,316 in expenditures. During fiscal 2004, the emergency levy fund's fund deficit decreased \$53,329 from \$148,593 to \$95,264.
- The debt service fund had \$860,356 in revenues and \$838,154 in expenditures. During fiscal 2004, the debt service fund's fund balance increased \$22,202 from \$293,467 to \$315,669.

Using the Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, emergency levy fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, extracurricular activities, food service operations, and interest and fiscal charges.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, emergency levy fund and debt service fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-20 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical benefits. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-49 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2004 and 2003.

	Net Assets	
	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<u>Assets</u>		
Current and other assets	\$ 9,155,704	\$ 9,709,671
Capital assets, net	<u>12,958,027</u>	<u>13,100,525</u>
Total assets	<u>22,113,731</u>	<u>22,810,196</u>
<u>Liabilities</u>		
Current liabilities	9,675,403	9,101,263
Long-term liabilities	<u>10,327,337</u>	<u>10,700,826</u>
Total liabilities	<u>20,002,740</u>	<u>19,802,089</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,458,027	3,205,525
Restricted	668,925	878,676
Unrestricted (deficit)	<u>(2,015,961)</u>	<u>(1,076,094)</u>
Total net assets	<u>\$ 2,110,991</u>	<u>\$ 3,008,107</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$2,110,991.

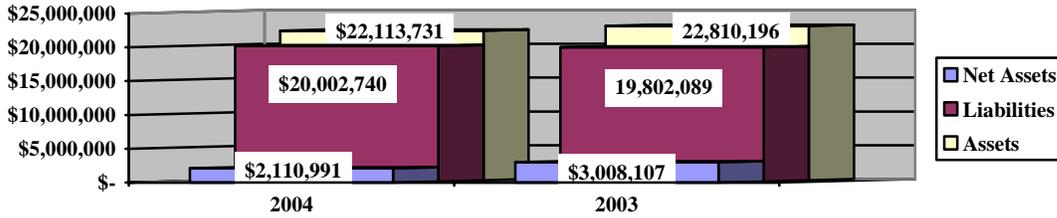
At year-end, capital assets represented 58.60% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$3,458,027. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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A portion of the District's net assets, \$668,925, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$2,015,961.

Governmental Activities



The table below shows the change in net assets for fiscal years 2004 and 2003.

Change in Net Assets

	Governmental Activities 2004	Governmental Activities 2003
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,949,557	\$ 1,726,202
Operating grants and contributions	804,697	848,810
Capital grants and contributions	478,000	26,441
General revenues:		
Property taxes	7,252,043	7,229,003
Grants and entitlements	5,799,138	5,575,476
Investment earnings	20,396	31,930
Other	144,962	75,728
Total revenues	16,448,793	15,513,590

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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Change in Net Assets

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 6,770,857	\$ 6,635,995
Special	2,173,548	1,882,068
Vocational	58,308	54,512
Other	1,170,999	1,125,551
Support services:		
Pupil	453,249	414,132
Instructional staff	433,114	409,246
Board of education	13,271	11,359
Administration	1,299,517	1,262,146
Fiscal	428,883	401,369
Business	214,639	66,447
Operation and maintenance	1,611,318	1,703,477
Pupil transportation	1,178,880	913,149
Central	50,235	84,438
Operation of non-instructional services	51,551	38,812
Extracurricular activities	467,840	489,274
Food service operations	542,041	457,391
Interest and fiscal charges	<u>427,659</u>	<u>444,234</u>
Total expenses	<u>17,345,909</u>	<u>16,393,600</u>
Change in net assets	(897,116)	(880,010)
Net assets at beginning of year	<u>3,008,107</u>	<u>3,888,117</u>
Net assets at end of year	<u>\$ 2,110,991</u>	<u>\$ 3,008,107</u>

Governmental Activities

The District's net assets of governmental activities decreased \$897,116. Total governmental expenses of \$17,345,909 were offset by program revenues of \$3,232,254 and general revenues of \$13,216,539. Program revenues supported 18.63% of the total governmental expenses.

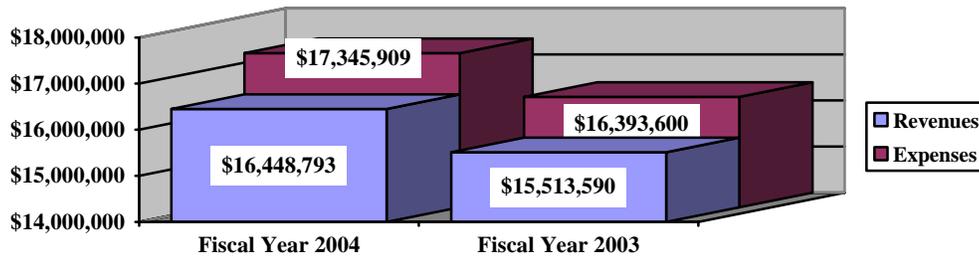
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 79.34% of total governmental revenue. Real estate property is reappraised every six years.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

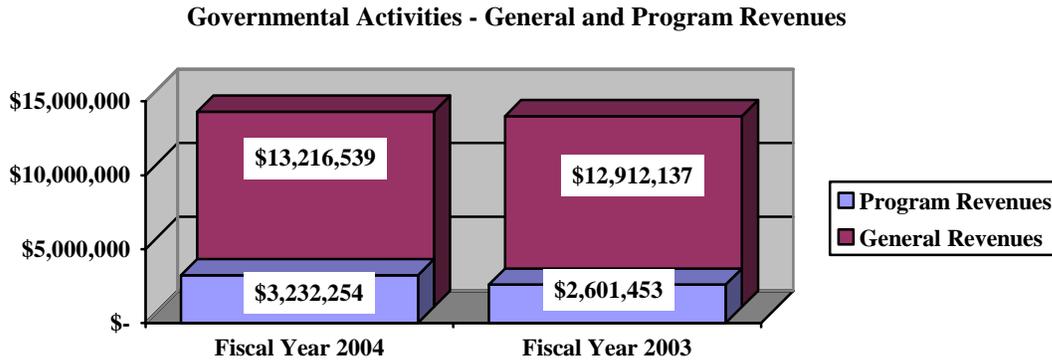
	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses				
Instruction:				
Regular	\$ 6,770,857	\$ 6,528,448	\$ 6,635,995	\$ 6,565,582
Special	2,173,548	1,808,475	1,882,068	1,445,585
Vocational	58,308	58,308	54,512	54,512
Other	1,170,999	(17,875)	1,125,551	(24,142)
Support services:				
Pupil	453,249	431,447	414,132	388,524
Instructional staff	433,114	346,311	409,246	284,646
Board of education	13,271	13,271	11,359	11,359
Administration	1,299,517	1,195,468	1,262,146	1,146,371
Fiscal	428,883	422,235	401,369	391,705
Business	214,639	214,639	66,447	66,447
Operations and maintenance	1,611,318	1,133,016	1,703,477	1,703,173
Pupil transportation	1,178,880	1,171,104	913,149	911,453
Central	50,235	36,720	84,438	55,371
Operation of non-instructional services	51,551	51,551	38,812	38,812
Extracurricular activities	467,840	277,700	489,274	339,300
Food service operations	542,041	15,178	457,391	(30,785)
Interest and fiscal charges	427,659	427,659	444,234	444,234
Total expenses	<u>\$ 17,345,909</u>	<u>\$ 14,113,655</u>	<u>\$ 16,393,600</u>	<u>\$ 13,792,147</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The dependence upon tax and other general revenues for governmental activities is apparent, 82.34% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.37%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund deficit of \$1,008,190, which is lower than last year's fund balance of \$63,559. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance/(Deficit) <u>June 30, 2004</u>	Fund Balance/(Deficit) <u>June 30, 2003</u>	<u>Increase/(Decrease)</u>
General	\$ (1,437,385)	\$ (497,180)	\$ (940,205)
Emergency Levy	(95,264)	(148,593)	53,329
Debt Service	315,669	293,467	22,202
Other Governmental	<u>208,790</u>	<u>415,865</u>	<u>(207,075)</u>
Total	<u>\$ (1,008,190)</u>	<u>\$ 63,559</u>	<u>\$ (1,071,749)</u>

General Fund

The District's general fund deficit balance increased \$940,205. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,860,340	\$ 4,993,251	(2.66) %
Tuition	145,477	-	100.00 %
Classroom materials and fees	19,610	-	100.00 %
Earnings on investments	19,636	30,639	(35.91) %
Intergovernmental	5,511,358	5,298,566	4.02 %
Other revenues	<u>1,241,241</u>	<u>1,250,316</u>	(0.73) %
Total	<u>\$ 11,797,662</u>	<u>\$ 11,572,772</u>	1.94 %
<u>Expenditures</u>			
Instruction	\$ 7,933,701	\$ 7,520,998	5.49 %
Support services	4,589,440	3,997,555	14.81 %
Operation of non-instructional services	28,238	26,388	7.01 %
Extracurricular activities	<u>279,725</u>	<u>282,627</u>	(1.03) %
Total	<u>\$ 12,831,104</u>	<u>\$ 11,827,568</u>	8.48 %

Emergency Levy Fund

The District's emergency levy fund balance increased by \$53,329. Total revenues decreased by \$23,594 to \$1,585,645. However total expenditures decreased by \$176,382 to \$1,532,316.

Debt Service Fund

The District's debt service fund balance increased by \$22,202. This was due to a slight increase in total revenues of \$38,561 to \$860,356 which exceeded a slight increase in expenditures of \$19,975 to \$838,154.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, final budgeted revenues were \$12,202,053, which approximates the original budgeted revenues estimate of \$11,796,381. Actual revenues and other financing sources for fiscal 2004 was \$12,504,328. This represents a \$302,275 increase over final budgeted revenues. This increase is primarily due to conservative tax and intergovernmental estimates in the original and final budgeted amounts.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$12,439,064 were reduced to \$11,962,861 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$13,159,139, which was \$1,196,278 more than the final budget appropriations. The increases in appropriations were caused by the increases in maintenance and health care costs.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$12,958,027 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to the balances of 2003:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2004	2003
Land	\$ 349,160	\$ 349,160
Land improvements	871,941	961,895
Building and improvements	11,358,745	11,330,418
Furniture and equipment	232,651	256,661
Vehicles	145,530	202,391
Total	\$ 12,958,027	\$ 13,100,525

The primary increase occurred in building improvements, which was due to the completion of a roof project. The District had no other capital asset acquisitions during fiscal 2004. The overall decrease in capital assets of \$142,498 is primarily due to the recording of \$620,498 in depreciation expense for fiscal 2004.

Debt Administration

At June 30, 2004, the District had \$9,500,000 in general obligation bonds outstanding. Of this total, \$425,000 is due within one year and \$9,075,000 is due within greater than one year.

In fiscal year 1998, the District passed a 3.60 mill tax levy, providing for construction of the District's new high school. The general obligation bonds are scheduled to mature in fiscal year 2021 and bear an interest rate of 5.23%. The payment of principal and interest is being made from the debt service fund.

At June 30, 2004, the District's overall legal debt margin was \$11,012,160 with an unvoted debt margin of \$224,405. The District maintains an A-1 bond rating.

Current Financial Related Activities

The District faces many challenges in the future. The District relies heavily on local property taxes. Declining enrollment and changes in Average Daily Membership (ADM) calculations for foundation formulas have produced a decrease in state funding. The scheduled decreases in personal and tangible taxes contribute to the critical need for additional new local funding. After three failed attempts, the District's voters did pass a 7.9 mill emergency operating levy in May 2005. The District should now have the necessary funds to meet its operating expenses in fiscal year 2006.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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Another challenge facing the District in the completion of the campus atmosphere started with the building of the new high school. Currently, all three district buildings rest on the same plot of land. In the future, athletic fields and transportation facilities need to be relocated on the campus to complete the project. The District also faces the challenge of upgrading current facilities such as middle school science labs and band rooms, general building repairs, and storage space. The current permanent improvement levy does not provide enough funding to meet these needs. The Board declared "urgent necessity" for demolition of the old high school with a portion to remain as district-wide storage.

The last major challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the state has directed its tax revenue growth toward school districts with little property tax wealth. 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. At this time, the District is unable to determine what effect, if any, this decision will have on its future state funding and on its financial operations.

The District has anticipated a lower than normal increase in funding due to declining enrollment in future state revenue. The District lost over 40 students in the last two years. The District's main challenge is how to stop this declining enrollment. With decreased state funding, cost cutting measures are inevitable unless other revenue sources become available (i.e. operating tax levy).

The District added an open enrollment policy effective for the 2004 - 2005 school year. An anticipated enrollment of 110 students would have allowed the District to remain fiscally sound for the 2005 fiscal year. Unfortunately, when student transfers out were taken into account, the net effect of the open enrollment policy was plus 32 students.

The District's system of budgeting and internal controls is well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact, Tracey Obermiyer, Treasurer of Liberty Local School District at 4115 Shady Road, Youngstown, Ohio, 44505-1395.

**BASIC
FINANCIAL STATEMENTS**

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,034,630
Investments	14,688
Receivables:	
Taxes	8,061,426
Accounts	13,231
Intergovernmental	10,420
Materials and supplies inventory	21,309
Capital assets:	
Land	349,160
Depreciable capital assets, net	12,608,867
Total capital assets, net	12,958,027
 Total assets.	 22,113,731
 Liabilities:	
Accounts payable.	495,022
Contracts payable.	74,715
Accrued wages and benefits	1,195,959
Pension obligation payable.	303,972
Intergovernmental payable	107,832
Deferred revenue	7,186,015
Accrued interest payable	39,476
Claims payable	272,412
Long-term liabilities:	
Due within one year.	544,422
Due in more than one year	9,782,915
 Total liabilities	 20,002,740
 Net Assets:	
Invested in capital assets, net of related debt	3,458,027
Restricted for:	
Permanent fund - expendable.	4,687
Permanent fund - nonexpendable.	574
Debt service	370,325
Capital projects.	62,589
Other purposes	230,750
Unrestricted (deficit).	(2,015,961)
 Total net assets	 \$ 2,110,991

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 6,770,857	\$ 165,087	\$ 77,322	\$ -	\$ (6,528,448)
Special	2,173,548	-	365,073	-	(1,808,475)
Vocational	58,308	-	-	-	(58,308)
Other	1,170,999	1,188,874	-	-	17,875
Support services:					
Pupil	453,249	-	21,802	-	(431,447)
Instructional staff	433,114	-	86,803	-	(346,311)
Board of education	13,271	-	-	-	(13,271)
Administration	1,299,517	90,268	13,781	-	(1,195,468)
Fiscal	428,883	-	6,648	-	(422,235)
Business	214,639	-	-	-	(214,639)
Operations and maintenance	1,611,318	-	302	478,000	(1,133,016)
Pupil transportation	1,178,880	-	7,776	-	(1,171,104)
Central	50,235	-	13,515	-	(36,720)
Operation of non-instructional services	51,551	-	-	-	(51,551)
Extracurricular activities	467,840	186,982	3,158	-	(277,700)
Food service operations	542,041	318,346	208,517	-	(15,178)
Interest and fiscal charges	427,659	-	-	-	(427,659)
Totals	\$ 17,345,909	\$ 1,949,557	\$ 804,697	\$ 478,000	(14,113,655)

General Revenues:

Property taxes levied for:	
General purposes	4,907,207
Special Revenue	1,424,426
Debt Service	781,148
Capital Projects	139,262
Grants and entitlements not restricted	
to specific programs	5,799,138
Investment earnings	20,396
Miscellaneous	144,962
Total general revenues	13,216,539
Change in net assets	(897,116)
Net assets at beginning of year	3,008,107
Net assets at end of year	\$ 2,110,991

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Emergency Levy</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ -	\$ 101,458	\$ 314,459	\$ 592,407	\$ 1,008,324
Receivables:					
Taxes	5,455,914	1,586,978	861,631	156,903	8,061,426
Accounts	12,873	358	-	-	13,231
Intergovernmental.	-	-	-	10,420	10,420
Interfund loans	21,634	20,602	-	-	42,236
Due from other funds.	24,018	91,255	-	-	115,273
Materials and supplies inventory.	10,059	-	-	11,250	21,309
Restricted assets:					
Investments	14,688	-	-	-	14,688
Total assets	<u>\$ 5,539,186</u>	<u>\$ 1,800,651</u>	<u>\$ 1,176,090</u>	<u>\$ 770,980</u>	<u>\$ 9,286,907</u>
Liabilities:					
Accounts payable	\$ 316,041	\$ -	\$ -	\$ 178,981	\$ 495,022
Contracts payable	-	-	-	74,715	74,715
Accrued wages and benefits	805,205	306,341	-	84,413	1,195,959
Compensated absences payable.	25,601	-	-	-	25,601
Pension obligation payable	188,141	-	-	-	188,141
Intergovernmental payable	101,893	-	-	5,939	107,832
Interfund loans payable.	-	-	-	42,236	42,236
Due to other funds	91,255	4,795	-	19,223	115,273
Deferred revenue	5,448,435	1,584,779	860,421	156,683	8,050,318
Total liabilities	<u>6,976,571</u>	<u>1,895,915</u>	<u>860,421</u>	<u>562,190</u>	<u>10,295,097</u>
Fund Balances:					
Reserved for encumbrances.	-	-	-	167,967	167,967
Reserved for materials and supplies inventory	10,059	-	-	11,250	21,309
Reserved for property tax unavailable for appropriation.	7,479	2,199	1,210	220	11,108
Reserved for school bus purchase.	116,388	-	-	-	116,388
Reserved for textbooks/instructional supplies	88,931	-	-	-	88,931
Reserved for debt service	-	-	314,459	-	314,459
Reserved for perpetual care	-	-	-	4,687	4,687
Reserved for permanent fund	-	-	-	574	574
Unreserved, undesignated (deficit), reported in:					
General fund.	(1,660,242)	-	-	-	(1,660,242)
Special revenue funds	-	(97,463)	-	(6,452)	(103,915)
Capital projects funds	-	-	-	30,544	30,544
Total fund balances (deficits)	<u>(1,437,385)</u>	<u>(95,264)</u>	<u>315,669</u>	<u>208,790</u>	<u>(1,008,190)</u>
Total liabilities and fund balances	<u>\$ 5,539,186</u>	<u>\$ 1,800,651</u>	<u>\$ 1,176,090</u>	<u>\$ 770,980</u>	<u>\$ 9,286,907</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund deficit		\$ (1,008,190)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		12,958,027
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 864,303	
Total		864,303
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(246,106)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	9,500,000	
Compensated absences	801,736	
Pension obligation payable	115,831	
Accrued interest payable	39,476	
Total		(10,457,043)
Net assets of governmental activities		\$ 2,110,991

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	Emergency Levy	Debt Service	Other Governmental Funds
Revenues:				
From local sources:				
Taxes	\$ 4,860,340	\$ 1,410,642	\$ 765,698	\$ 137,883
Tuition.	145,477	-	-	-
Charges for services.	-	-	-	318,346
Earnings on investments	19,636	-	-	533
Extracurricular	-	-	-	187,382
Classroom materials and fees.	19,610	-	-	90,268
Other local revenues	1,241,241	358	-	3,458
Other revenues	-	-	-	10,500
Intergovernmental - State	5,511,358	174,645	94,658	150,143
Intergovernmental - Federal	-	-	-	1,145,400
Total revenues.	11,797,662	1,585,645	860,356	2,043,913
Expenditures:				
Current:				
Instruction:				
Regular	5,042,014	983,603	-	197,139
Special.	1,663,695	25,370	-	476,128
Vocational.	57,103	-	-	-
Other.	1,170,889	-	-	110
Support Services:				
Pupil.	365,081	27,892	-	47,251
Instructional staff	207,278	71,275	-	125,537
Board of education	13,271	-	-	-
Administration.	1,044,333	121,118	-	123,401
Fiscal	357,587	64,459	-	6,670
Business	214,639	-	-	-
Operations and maintenance.	1,436,215	122,639	13,854	11,984
Pupil transportation	922,919	107,903	-	75,075
Central.	28,117	8,057	-	11,947
Operation of non-instructional services	28,238	-	-	23,343
Food service operations	-	-	-	493,015
Extracurricular activities.	279,725	-	-	185,241
Facilities acquisition and construction	-	-	-	478,000
Debt service:				
Principal retirement	-	-	395,000	-
Interest and fiscal charges	-	-	429,300	-
Total expenditures	12,831,104	1,532,316	838,154	2,254,841
Excess of revenues under expenditures	(1,033,442)	53,329	22,202	(210,928)
Other financing sources:				
Proceeds from sale of capital assets.	91,587	-	-	50
Total other financing sources.	91,587	-	-	50
Net change in fund balances	(941,855)	53,329	22,202	(210,878)
Fund balances (deficit) at beginning				
of year	(497,180)	(148,593)	293,467	415,865
Increase in reserve for inventory.	1,650	-	-	3,803
Fund balances (deficits) at end of year.	\$ (1,437,385)	\$ (95,264)	\$ 315,669	\$ 208,790

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Total
Governmental
Funds**

\$ 7,174,563
145,477
318,346
20,169
187,382
109,878
1,245,057
10,500
5,930,804
1,145,400

16,287,576

6,222,756
2,165,193
57,103
1,170,999

440,224
404,090
13,271
1,288,852
428,716
214,639
1,584,692
1,105,897
48,121
51,581
493,015
464,966
478,000

395,000
429,300

17,456,415

(1,168,839)

91,637

91,637

(1,077,202)

63,559
5,453

\$ (1,008,190)

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds \$ (1,077,202)

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

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$620,498) exceeded capital outlays (\$478,000) in the current period. (142,498)

Governmental funds report expenditures for inventory when purchased, however, in the statement of activities they are reported as an expense when consumed. 5,453

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 69,353

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 395,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,641

Some expenses reported in the statement of activities, such as compensated absences and pension obligations do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (16,452)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (132,411)

Change in net assets of governmental activities \$ (897,116)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 4,611,749	\$ 4,770,345	\$ 4,888,518	\$ 118,173
Tuition.	132,758	137,323	140,725	3,402
Earnings on investments.	15,920	16,467	16,875	408
Classroom material & fees.	18,500	19,136	19,610	474
Other local revenues.	1,170,677	1,210,936	1,240,934	29,998
Intergovernmental - State	5,201,803	5,380,691	5,513,984	133,293
Total revenues	<u>11,151,407</u>	<u>11,534,898</u>	<u>11,820,646</u>	<u>285,748</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,807,308	4,623,270	5,085,594	(462,324)
Special.	1,565,014	1,505,101	1,655,610	(150,509)
Vocational.	53,375	51,332	56,465	(5,133)
Other	1,119,576	1,076,715	1,184,386	(107,671)
Support Services:				
Pupil.	337,419	324,501	356,951	(32,450)
Instructional staff	192,761	185,382	203,920	(18,538)
Board of education	11,540	11,098	12,208	(1,110)
Administration.	973,977	936,691	1,030,359	(93,668)
Fiscal	324,537	312,113	343,324	(31,211)
Business	143,637	138,138	151,952	(13,814)
Operations and maintenance	1,263,610	1,215,235	1,336,758	(121,523)
Pupil transportation.	809,404	778,418	856,259	(77,841)
Central	26,398	25,387	27,926	(2,539)
Operation of non-instructional services	26,663	25,642	28,206	(2,564)
Extracurricular activities.	267,940	257,683	283,451	(25,768)
Total expenditures	<u>11,923,159</u>	<u>11,466,706</u>	<u>12,613,369</u>	<u>(1,146,663)</u>
Excess of revenues over (under) expenditures.	<u>(771,752)</u>	<u>68,192</u>	<u>(792,723)</u>	<u>(860,915)</u>
Other financing sources (uses):				
Refund of prior year expenditure	64,111	66,316	67,959	1,643
Transfers in	494,461	511,466	524,136	12,670
Transfers out	(495,455)	(476,488)	(524,136)	(47,648)
Advances out.	(20,450)	(19,667)	(21,634)	(1,967)
Sale of capital assets	86,402	89,373	91,587	2,214
Total other financing sources (uses)	<u>129,069</u>	<u>171,000</u>	<u>137,912</u>	<u>(33,088)</u>
Net change in fund balance	(642,683)	239,192	(654,811)	(894,003)
Fund balance at beginning of year	388,568	388,568	388,568	-
Prior year encumbrances appropriated	107,462	107,462	107,462	-
Fund balance at end of year.	<u>\$ (146,653)</u>	<u>\$ 735,222</u>	<u>\$ (158,781)</u>	<u>\$ (894,003)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
EMERGENCY LEVY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 995,709	\$ 995,709	\$ 1,418,929	\$ 423,220
Intergovernmental - State.	122,554	122,554	174,645	52,091
Total revenues	<u>1,118,263</u>	<u>1,118,263</u>	<u>1,593,574</u>	<u>475,311</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,455,463	1,455,463	1,055,612	399,851
Special.	123,533	123,533	10,508	113,025
Support Services:				
Pupil.	38,135	38,135	31,610	6,525
Instructional staff	52,711	52,711	60,431	(7,720)
Administration.	145,997	145,997	121,118	24,879
Fiscal	117,215	117,215	64,459	52,756
Operations and maintenance.	63,324	63,324	122,639	(59,315)
Pupil transportation	49,645	49,645	84,783	(35,138)
Central.	6,781	6,781	8,353	(1,572)
Total expenditures	<u>2,052,804</u>	<u>2,052,804</u>	<u>1,559,513</u>	<u>493,291</u>
Excess of revenues over (under) expenditures.	<u>(934,541)</u>	<u>(934,541)</u>	<u>34,061</u>	<u>968,602</u>
Other financing sources (uses):				
Transfers in	480,932	480,932	685,349	204,417
Transfers out	(212,661)	(212,661)	(685,349)	(472,688)
Advances out	-	-	(20,602)	(20,602)
Total other financing sources (uses)	<u>268,271</u>	<u>268,271</u>	<u>(20,602)</u>	<u>(288,873)</u>
Net change in fund balance	(666,270)	(666,270)	13,459	679,729
Fund balance at beginning of year.	<u>179,254</u>	<u>179,254</u>	<u>179,254</u>	<u>-</u>
Fund balance at end of year	<u>\$ (487,016)</u>	<u>\$ (487,016)</u>	<u>\$ 192,713</u>	<u>\$ 679,729</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 26,306
	26,306
Total assets	26,306
Liabilities:	
Claims payable	272,412
	272,412
Total liabilities	272,412
Net assets:	
Unrestricted.	(246,106)
	(246,106)
Total net assets	\$ (246,106)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	\$ 1,821,841
Total operating revenues	<u>1,821,841</u>
Operating expenses:	
Administrative services	18,823
Claims expense	<u>1,935,656</u>
Total operating expenses	<u>1,954,479</u>
Operating loss	<u>(132,638)</u>
Nonoperating revenues:	
Interest revenue	<u>227</u>
Total nonoperating revenues	<u>227</u>
Change in net assets	(132,411)
Net assets at beginning of year	<u>(113,695)</u>
Net assets at end of year	<u><u>\$ (246,106)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,821,841
Cash payments for administrative services	(18,823)
Cash payments for claims and administrative services	<u>(1,871,002)</u>
Net cash used in operating activities	<u>(67,984)</u>
Cash flows from investing activities:	
Interest received	<u>227</u>
Net cash provided by investing activities	<u>227</u>
Net increase in cash and cash equivalents	(67,757)
Cash and cash equivalents at beginning of year	<u>94,063</u>
Cash and cash equivalents at end of year.	<u><u>\$ 26,306</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (132,638)
Changes in assets and liabilities:	
Increase in claims payable	<u>64,654</u>
Net cash used in operating activities	<u><u>\$ (67,984)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 57,407
Receivables:	
Accounts	35
	35
Total assets	\$ 57,442
	57,442
Liabilities:	
Accounts payable.	\$ 7,886
Due to students.	49,556
	49,556
Total liabilities.	\$ 57,442
	57,442

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Liberty Local School (the "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. The District is a school district as defined by the 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 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 311th largest by enrollment among the 613 public 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 125 certified personnel to provide services to approximately 1,801 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic 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, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government 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 to organizations resources; the (3) District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Based upon the application of this criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 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.

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Emergency Levy Fund - The Emergency Levy special revenue fund is used to account for the accumulation of tax revenue generated by an emergency tax levy and the use of those funds.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for the repayment of debt.

The other governmental funds of the District account for grants and other resources whose use is restricted to a particular purpose.

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. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal Service Fund - The internal service fund is 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 governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical benefits to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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 fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental 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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. 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 Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Tax Budget:

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 express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Trumbull County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' 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 the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. 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 statements reflect the amounts in the final amended Certificate issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the fund level must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. 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" on the basic financial statements.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

During fiscal year 2004, investments were limited to overnight repurchase agreements, nonnegotiable certificates of deposits, federal agency securities, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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 District has invested funds in STAR Ohio during fiscal 2004. 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, 2004.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$19,636, which includes \$16,575 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when received. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; 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.

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

Description	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment 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 District's past experience of making termination payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The 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, materials and supplies inventory, debt service, property taxes unavailable for appropriation, textbooks/instructional supplies, school bus purchases, perpetual care and permanent fund. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee benefits self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

N. Net Assets

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

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Estimates

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

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount received for school bus purchases, however, the amount restricted is limited to the cash available in the general fund. See Note 16 for details.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Budgetary

Contrary to Ohio Revised Code Section 5705.41 (B), the District's General Fund expenditures exceeded appropriations at June 30, 2004 in the amount of \$1,146,663.

B. Deficit Fund Balances/Net Assets

Fund balances/net assets at June 30, 2004 included the following individual fund deficits:

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	Deficit
<u>Major Funds</u>	
General	\$ 1,437,385
Emergency Levy	95,264
<u>Nonmajor Funds</u>	
Management Information System	70
Title VI-B	27,064
Title I	36,874
Title VI	388
Title II-A	5,639
<u>Proprietary Fund</u>	
Employee Benefits Self-Insurance	246,106

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". 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.

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 finance 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.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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 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 2% 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 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash on hand: At fiscal year-end, the District had \$250 in undeposited cash on hand which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Investments".

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

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Deposits: At year-end, the carrying amount of the District's deposits was \$(168,132) and the bank balance was \$15,651. 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 FDIC.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal 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, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreements	\$ 251,806	\$ 251,806	\$ 251,806
Common stock *	<u>14,688</u>	14,688	14,688
Total	<u>\$ 266,494</u>		
Investment in STAR Ohio		<u>1,008,113</u>	<u>1,008,113</u>
Total investments		<u>\$ 1,274,607</u>	<u>\$ 1,274,607</u>

* 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.

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,092,037	\$ 14,688
Investments of the cash management pool:		
Repurchase agreements	(251,806)	251,806
Investment in STAR Ohio	(1,008,113)	1,008,113
Cash on hand	<u>(250)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ (168,132)</u>	<u>\$ 1,274,607</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2004, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 21,634
Emergency Levy	Nonmajor Governmental Funds	<u>20,602</u>
Total interfund loans		<u>\$ 42,236</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

- B. Due to/from other funds consisted of the following at June 30, 2004, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Emergency Levy Fund	General Fund	\$ 91,255
General Fund	Emergency Levy Fund	4,795
General Fund	Nonmajor Governmental Funds	<u>19,223</u>
Total due to/from		<u>\$ 115,273</u>

The purpose of the amount due to the emergency levy fund is due to negative cash in the general fund. Interfund loans between governmental funds will be eliminated on the government-wide statements.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Trumbull County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$7,479 in the general fund, \$1,210 in the debt service fund, \$220 in the Permanent Improvement capital projects fund, and \$2,199 in the Emergency Levy special revenue fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2003 was \$35,657 in the general fund, \$5,244 in the debt service fund, \$1,049 in the Permanent Improvement capital projects fund, and \$10,486 in the Emergency Levy special revenue fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 201,833,490	88.97	\$ 202,446,910	90.21
Public utility personal	9,029,220	3.98	8,650,150	3.85
Tangible personal property	<u>15,993,061</u>	<u>7.05</u>	<u>13,308,398</u>	<u>5.94</u>
Total	<u>\$ 226,855,771</u>	<u>100.00</u>	<u>\$ 224,405,458</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$43.85		\$44.40	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 8,061,426
Accounts	13,231
Intergovernmental	<u>10,420</u>
Total	<u>\$ 8,085,077</u>

Receivables have been disaggregated on the face of the basic finance statements. All receivables are expected to be collected within subsequent years.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS

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

	<u>Balance</u> <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/04</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 349,160	\$ -	\$ -	\$ 349,160
Total capital assets, not being depreciated	<u>349,160</u>	<u>-</u>	<u>-</u>	<u>349,160</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,985,322	-	-	1,985,322
Building and improvements	18,644,781	478,000	-	19,122,781
Furniture and equipment	722,867	-	-	722,867
Vehicles	1,143,294	-	-	1,143,294
Total capital assets, being depreciated	<u>22,496,264</u>	<u>478,000</u>	<u>-</u>	<u>22,974,264</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,023,427)	(89,954)	-	(1,113,381)
Building and improvements	(7,314,363)	(449,673)	-	(7,764,036)
Furniture and equipment	(466,206)	(24,010)	-	(490,216)
Vehicles	(940,903)	(56,861)	-	(997,764)
Total accumulated depreciation	<u>(9,744,899)</u>	<u>(620,498)</u>	<u>-</u>	<u>(10,365,397)</u>
Governmental activities capital assets, net	<u>\$ 13,100,525</u>	<u>\$ (142,498)</u>	<u>\$ -</u>	<u>\$ 12,958,027</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 453,978
Special	4,731
Vocational	327

Support Services:

Pupil	7,219
Instructional Staff	10,576
Administration	11,772
Operations and Maintenance	19,691
Pupil Transportation	58,719
Central	2,114
Extracurricular Activities	3,013
Food Service Operation	<u>48,358</u>

Total depreciation expense \$ 620,498

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	Interest Rate	Balance Outstanding 06/30/03	Additions	Reductions	Balance Outstanding 06/30/04	Amounts Due in One Year
Governmental Activities:						
<u>General Obligation Bonds:</u>						
Building construction bonds	5.23%	\$ 9,895,000	\$ -	\$ (395,000)	\$ 9,500,000	\$ 425,000
Total general obligation bonds payable		<u>\$ 9,895,000</u>	<u>\$ -</u>	<u>\$ (395,000)</u>	<u>\$ 9,500,000</u>	<u>\$ 425,000</u>
<u>Other Long-Term Obligations:</u>						
Compensated absences		\$ 805,826	\$ 137,100	\$ (115,589)	\$ 827,337	\$ 119,422
Total other long-term obligations		<u>\$ 805,826</u>	<u>\$ 137,100</u>	<u>\$ (115,589)</u>	<u>\$ 827,337</u>	<u>\$ 119,422</u>
Total governmental activities		<u>\$ 10,700,826</u>	<u>\$ 137,100</u>	<u>\$ (510,589)</u>	<u>\$ 10,327,337</u>	<u>\$ 544,422</u>

General Obligation Bonds: 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. 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.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid.

- B. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2004, are as follows:

Year Ended	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 425,000	\$ 411,047	\$ 836,047
2006	455,000	391,020	846,020
2007	490,000	369,040	859,040
2008	525,000	345,056	870,056
2009	278,017	614,569	892,586
2010 - 2014	1,616,983	3,029,630	4,646,613
2015 - 2019	3,865,000	1,020,466	4,885,466
2020 - 2021	<u>1,845,000</u>	<u>95,681</u>	<u>1,940,681</u>
Total	<u>\$ 9,500,000</u>	<u>\$ 6,276,509</u>	<u>\$ 15,776,509</u>

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

C. 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, 2004 are a voted debt margin of \$11,012,160 (including available funds of \$315,669) and an unvoted debt margin of \$224,405.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for twenty-five percent of the total sick leave accumulation, up to a maximum accumulation of thirty days, and an additional 12.5% of leave balance exceeding 120 days, for both certificated and classified employees. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance in the amount of \$50,000 to certified and classified employees.

NOTE 11 - 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 reduction in amounts of insurance coverage from fiscal 2003.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - RISK MANAGEMENT - (Continued)

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 of 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 \$272,412 reported in the fund at June 30, 2004 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 2004 are as follows:

	<u>Balance at</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
2004	\$ 207,758	\$ 1,935,656	\$ (1,871,002)	\$ 272,412
2003	223,892	1,493,595	(1,509,729)	207,758

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.

All funds of the District participate in the program and make payments to the Risk Management Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services).

C. OSBA Group Workers' Compensation Group Rating Plan

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). 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 percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 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 retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% 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 adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$232,531, \$229,189, and \$221,292, respectively; 43% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$131,796, represents the unpaid contribution for fiscal year 2004.

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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS 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 State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13% of annual covered salary 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$868,856, \$836,499, and \$792,051, respectively; 83% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$144,212, represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$7,187 made by the District and \$13,901 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - POSTEMPLOYEMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$62,061 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$107,603 during the 2004 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and emergency levy fund 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 and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and emergency levy fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>	<u>Emergency Levy</u>
Budget basis	\$ (654,811)	\$ 13,459
Net adjustment for revenue accruals	(22,984)	(7,929)
Net adjustment for expenditure accruals	(288,010)	27,197
Net adjustment for other sources/uses	(46,325)	20,602
Adjustment for encumbrances	<u>70,275</u>	<u>-</u>
GAAP basis	<u>\$ (941,855)</u>	<u>\$ 53,329</u>

NOTE 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. State 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.

**LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 15 - CONTINGENCIES - (Continued)

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

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2003	\$ (9,964)	\$ -
Current year set-aside requirement	252,268	252,268
Qualifying disbursements	<u>(153,373)</u>	<u>(390,294)</u>
Total	<u>\$ 88,931</u>	<u>\$ (138,026)</u>
Balance carried forward to FY 2005	<u>\$ 88,931</u>	<u>\$ -</u>

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases; however, there was not enough cash in the general fund available to restrict the full amount received, however, the full amount of \$116,388 will be reserved.

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for school bus purchases	<u>\$ 116,388</u>
Total restricted assets	<u>\$ 116,388</u>

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through The Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	N/A	10.550		\$46,074		\$46,074
National School Lunch Program	LL-P4-2003	10.555	\$176,959		\$176,959	
Total U.S. Department of Agriculture -- Nutrition Cluster			176,959	46,074	176,959	46,074
<u>DEPARTMENT OF HOMELAND SECURITY</u>						
<i>Passed through the Ohio Emergency Management Agency:</i>						
FEMA - Public Assistance Grant	1484-DR-155-029F5	97.036	82,770		82,770	
Total Department of Homeland Security			82,770		82,770	
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio School Facilities Commission:</i>						
<i>Passed Through Ohio Department of Education:</i>						
Federal Emergency Repair Grant	050195-380	84.352A	478,000		478,000	
<i>Passed Through The Ohio Department of Education:</i>						
Grants to Local Educational Agencies						
Title I School Subsidy	C1-S1 03	84.010			60,745	
	C1-S1 04		246,968		247,274	
Subtotal -- Title I School Subsidy			246,968		308,019	
<i>Special Education Grants Cluster:</i>						
Title VI - B Special Education Grants to States	6B-SF-2003	84.027	31,417		34,400	
	6B-SF-2004		193,930		168,623	
Subtotal - Special Education Grants Cluster			225,347		203,023	
Title VI - Innovative Education Program	C2-S1-04	84.151	9,442		9,800	
Safe and Drug Free Schools Grant	DR-S1-2003	84.186			10,358	
	DR-S1-2004		1,636			
Subtotal - Safe and Drug Free Schools Grant			1,636		10,358	
Innovative Education Program Strategies						
Chapter 2 Subsidy	CS-S1 2003	84.298	763		194	
Title II-D, Enhancing Education Through						
Technology	TJS1-2003	84.318	1,312		2,593	
	TJS1-2004		5,442		3,321	
Subtotal - Title II-D			6,754		5,914	
Assistive Technology Infusion Projec	ATS3	84.352	9,091		9,391	
Title II-A, Improving Teacher Quality	TRS1-2003	84.367			11,099	
	TRS1-2004		33,844		34,054	
Subtotal - Title II-A			33,844		45,153	
Total -- U.S. Department of Education			1,011,845		1,069,852	
Totals			\$1,271,574	\$46,074	\$1,329,581	\$46,074

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
FOR THE YEAR ENDED JUNE 30, 2004**

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 – CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the United States Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the United States Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Liberty Local School District
Trumbull County
4115 Shady Road
Youngstown, Ohio 44405

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty Local School District, Trumbull County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001.

Liberty Local School District
Trumbull County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

September 16, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Liberty Local School District, Trumbull County, Ohio, (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 apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major program. 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 auditing standards generally accepted in the United States of America; 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 apply to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program 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.

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.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

September 16, 2005

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

<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):	Grants to Local Educational Agencies – Title 1; CFDA Number 84.010 Federal Emergency Repair Grant – CFDA Number 83.548
<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

LIBERTY LOCAL SCHOOL DISTRICT
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41 (B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. Budgetary expenditures exceeded total appropriations at the legal level of control in the General Fund at June 30, 2004 as noted below:

	<u>Appropriations</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General Fund	\$11,466,706	\$12,613,369	\$(1,146,663)

The District should develop and implement procedures to monitor appropriations and expenditures throughout the year. Amendments to its appropriations should be enacted by the Board of Education as necessary to comply with the applicable statute. An effective monitoring system will enable the District to comply with budgetary requirements while limiting the risk of overspending in a fund or account.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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800-282-0370

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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
NOVEMBER 10, 2005**